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ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

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Print Edition August 19th 2006

On the cover
Bad news all round, especially if more of Israel's neighbours come to believe in Hizbullah's methods: leader

Previous print editions

Aug 12th 2006
Aug 5th 2006
Jul 29th 2006
Jul 22nd 2006
Jul 15th 2006

More print editions and covers »

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The world this week

Politics this week
Business this week

Leaders

Lebanon and Israel
Nasrallah wins the war

Japan and its neighbours
Drawing Yasukuni's sting

After the terror plot
British exceptionalism

The war against AIDS
Look to the future

The euro area's economies
A fair but fading wind

Letters

On support for Israel, Georgia, Britain and the Suez crisis, Canada, English

Special Report

After the terror alert
Fear of flying

Airport screening technology
Full exposure

British Muslims
Miles apart

MI5
Salute the spooks

Pakistan
School for terror

United States

Crime
Murder most common

Murder mysteries
Minnesota noir

The culture wars
Straws in the Kansas wind

Fantasy baseball leagues
Dream on

Greenery in California
Clearing the air

Lexington
Rahmbo's Plan

The Americas

Cuba and the United States
Not gone yet

Bolivia
Out of gas

Venezuela
The opposition finds a leader

Peru
Google it in Quechua

Asia

Business

Women in business
The Pepsi challenge

Exploding batteries
Too hot to handle

Pharmaceuticals
Heartburn

Uranium
Glowing

Tourism in Italy
Below Tuscany

Gambling in Europe
Stacking the deck

Face value
Communicating the Skype way

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Private banking
Rich pickings

Private banking in Singapore
A new treasure island

American government bonds
The bond-market bounce

China's currency
Ups and downs

World Bank
Keeping the faith

Microcredit in India
Microsharks

Dresdner Bank and Allianz
Unnatural alliance

Economics focus
The uses of adversity

Correction: America's Federal Reserve

Science & Technology

AIDS
Stand and deliver

The quest for an AIDS vaccine
Another throw of the dice

Genetics
Man, deconstructed

Image technology
Keeping it real

Books & Arts

New fiction
Window on the world

Fiction from Africa

Business Gifts

Advertisement

Sri Lanka at war
Beyond euphemism

India's Naxalites
A spectre haunting India

Middle East & Africa

After the ceasefire
Divided Lebanon

The UN and Lebanon
Robustly complicated

Israel
The blame game

Israel's north
Rockets fell on the new Tuscany

Ethiopia
A general defects

Europe

Europe and the Middle East
To Israel with hate—and guilt

Günter Grass
Another hero lost

Russia and Ukraine
Honey, I'm home

Azerbaijan and oil
Too much of a good thing

Bosnia's future
Prickle-points

Turkey's gypsies
Fighting bulldozers

Britain

Countering terrorism
John Reid's moment

The army in Afghanistan
A thin green line

Science in schools
Failed experiment

First world war pardons
The war over pity

Transcription
Moving target

Articles flagged with this icon are printed only in the British edition of *The Economist*

Where magic is reality

Beach reading
Steal magnolia

Literary fireworks
Clueless in Carolina

America and Iraq
A litany of abuse

New film
The view from Ground Zero

Amazon worldwide bestselling fiction
Paper imaginings

Obituary

John Weinberg

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Commitment to development in poor countries

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

The Economist commodity price index

Emerging-Market Indicators

Overview

The Economist poll of forecasters

Economy

Financial markets

Advertisement

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Politics this week

Aug 17th 2006
From The Economist print edition

Getty Images

A ceasefire took hold between Hizbullah and **Israel** after a month of fighting. Negotiations continued at the UN on the size and mandate of a peacekeeping force for south **Lebanon**. Lebanon began sending troops into the south, but said they would not disarm Hizbullah fighters. As Iran hailed a “divine victory”, Israelis criticised their government's handling of the war. See article

At least 57 people died in a series of blasts in **Baghdad** (which the Americans attributed to an accidental gas explosion) and nine were killed in an attack on the offices of an Iraqi Kurdish party in the northern town of Mosul. America assigned still more troops to Baghdad to try to contain the sectarian violence.

Islamist militiamen extended their hold over **Somalia** by capturing three ports close to the northern region of Puntland, where the administration is hostile to their advance. The internationally recognised transitional government remains holed up in the central town of Baidoa.

The **Nigerian** president, Olusegun Obasanjo, promised to increase security in the Niger Delta region after the kidnapping of five separate groups of foreign oil workers by militants in recent weeks. Ransoms paid by oil companies for the release of their workers have increased the militants' boldness.

India stepped up its competition with China for Africa's energy and commodity reserves by unveiling a blueprint to invest $1 billion to develop oil and mining projects in **Côte d'Ivoire**.

Ethiopia appealed for international help as the death toll from recent flooding rose to 870. Officials are concerned that after a month of storms the country's dams are holding so much water that it could spill on to surrounding towns and villages.

Power grab

California's legislature abandoned a plan to redraw political districts and increase term limits for politicians in the state. Governor Arnold Schwarzenegger has been pushing the body to introduce changes to the electoral system after his much wider-ranging reform package was defeated at the polls.

The Census Bureau released a snapshot of the United States' population at mid-decade. Among other things, America's **foreign-born population** increased to 12.4% in 2005 (from 11.1% in 2000), accounting for around 40% of the population of Los Angeles.

Provoking

Getty Images

Junichiro Koizumi, the outgoing prime minister of **Japan**, paid a sixth visit to the controversial Yasukuni shrine, which counts convicted war criminals among the dead soldiers it honours. Mr Koizumi's excursion further angered China and South Korea, especially as it came on the anniversary of Japan's defeat in the second world war. Polls show that most Japanese no longer favour such visits. See article

An aid organisation based in Seoul claimed that last month's floods in **North Korea** left almost 55,000 people either dead or missing and 2.5m homeless. Good Friends said the North Korean government is trying to suppress news about the disaster for fear of stirring social unrest.

The death toll from the worst typhoon to hit **China** in 50 years reached at least 320. Wind speeds in the storm, which was centred on the south-eastern province of Fujian, hit 216kph (134mph).

Fighting between **Sri Lankan** troops and Tamil rebels continued in the north of the country. Schools were closed across Sri Lanka amid fear of rebel reprisals in revenge for an air strike on what the rebels claim was an orphanage in Tamil territory. See article

Unravelling the plot

British police continued to question 23 suspects still held in connection with an alleged **terror plot** to blow up as many as ten planes flying from Britain to America. Pakistani authorities reportedly held another 17 people. Flights at British airports started to return to normal, although increased security measures, such as smaller carry-on bags, seem likely to stay in place. Some airlines claimed Heathrow was unprepared. See article

Ukraine's new prime minister, Viktor Yanukovich, visited Russia for talks with his opposite number, Mikhail Fradkov, and Russia's president, Vladimir Putin, who strongly backed Mr Yanukovich's bid for Ukraine's presidency in 2004. Mr Yanukovich, who is seen as pro-Russian, said he had secured a favourable deal from the Russians on the price of gas exports. See article

The United Nations chose a new representative to run **Kosovo**. Joachim Rücker, a German diplomat, will take over from Denmark's Soren Jessen-Petersen. Talks on Kosovo's future remain deadlocked.

The **Czech Republic** may at last acquire a new government, with Mirek Topolanek, leader of the right-wing Civic Democrats, as prime minister. The breakthrough came after a deal on the election of a parliamentary speaker. But Mr Topolanek will, at best, lead a minority government that is unlikely to last long.

Günter Grass, a German novelist, admitted that he had served in the Waffen-SS during the second world war. The shock of the news was greater because Mr Grass has long acted as the conscience of the nation over war guilt. See article

EPA

Holding on

In **Cuba**, the authorities released photos and a video of Fidel Castro on his sick bed after an operation for severe intestinal bleeding. The pictures suggested that Mr Castro was recovering but that he remains seriously ill. See article

A recount of 9% of the votes in last month's presidential election in **Mexico** ordered by the electoral tribunal was completed. The tribunal did not immediately release the result, but the party of Felipe Calderón, the conservative candidate who won by 244,000 votes out of 42m, said the recount only altered 1,500 votes. Andrés Manuel López Obrador, the leftist challenger, claimed the recount showed evidence of massive fraud.

Bolivia's government said it was temporarily suspending its nationalisation of the oil and gas industry because the state oil company lacks the funds and technical capacity to take over production from foreign firms. See article

Alfredo Stroessner, who ruled **Paraguay** as a dictator for 35 years until 1989, died in Brasília, the capital of Brazil.

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Business this week

Aug 17th 2006
From The Economist print edition

Amid the worries about the security risk of business travellers bringing laptops on to aircraft, **Dell** put a further dent in the device's safety credentials by issuing a recall of 4.1m lithium-ion laptop batteries (which are made by Sony). Such batteries, used in a variety of consumer electronics, have been responsible for several recent safety incidents, bursting into flames on at least five aircraft. See article

The effectiveness of Mark Hurd's strategy at **Hewlett-Packard** was underscored when the company reported a quarterly net profit of almost $1.4 billion, compared with $73m a year ago (when HP took a tax charge). Profitability at its PC unit, long seen as a drag on HP's earnings, also continued to perk up.

PepsiCo appointed Indian-born Indra Nooyi as its new chief executive. In doing so, the food and beverages firm becomes the biggest company in America (by stockmarket value) to be led by a woman. See article

LG Card, South Korea's primary credit-card issuer, looked set to be acquired by **Shinhan Financial Group** after it was chosen as the preferred bidder in a pubic auction. LG was bailed out by creditors, led by Korea Development Bank, after a consumer-debt crisis in 2002. With Shinhan reportedly paying around $7.5 billion, LG's takeover is likely to be South Korea's biggest.

Succour punch

In a much-watched court decision on disputed **home-insurance claims** arising from Hurricane Katrina, a federal judge in Mississippi ruled that a couple's insurance policy did not provide for damages caused by flooding, but did for damages caused by wind. The distinction is significant for insurance firms, which do not usually pay out for flood damage in standard homeowners' policies. The industry faces claims for billions of dollars that stem from flooding after Katrina and has already paid out nearly $18 billion in claims for wind damage.

Wal-Mart reported a drop in quarterly profit, its first decline in profit since 1996, as it accounted for charges stemming from the sale of its operations in Germany. The retailer's net income fell by 26%, compared with a year ago, to just under $2.1 billion for the three months ending July 31st. Excluding operations in Germany and South Korea, where it is also selling stores, profits rose by 4.6%, to $3 billion.

In what could be one of Australia's biggest takeovers, retailer **Coles Myer** confirmed it had been approached by parties wishing to “discuss the company's ownership”. Speculation mounted that the unnamed parties included Britain's Tesco.

No option

The FBI said the former chief executive of **Comverse** was now considered a fugitive from justice after he failed to appear at an arraignment for fraud connected to backdated stock-options; the former head of finance and former general counsel at the technology firm were charged at the hearing. Dozens of firms are being investigated by regulators in various stock-options scandals.

UBS, the world's biggest wealth manager, said it expected trading conditions in the second half of the year to be difficult, possibly dampening its revenues. The Swiss-based bank's caution came as it reported a second-quarter net profit of SFr3.1 billion ($2.5 billion), a rise of 47% compared with a year earlier. See article

Standard & Poor's downgraded **Eurotunnel's** credit rating after it defaulted on an interest payment on a tranche of bank debt. The operator of the rail tunnel that links Britain and France is taking advantage of its protection, granted earlier this month, under a new French bankruptcy law. Negotiations are continuing between the company and its bondholders on a debt restructuring plan.

The battle to win control of **Inco**, a Canadian nickel miner, intensified when **CVRD**, a big Brazilian mining company, threw its hat into the ring with a C$19.9 billion ($17.8 billion) bid. **Teck Cominco**, a compatriot of Inco's, saw its offer expire. Meanwhile, **Xstrata** said it had won control of **Falconbridge**, which had made a deal to merge with Inco until the Swiss-based company muscled in.

The **price of oil**, which reached nearly $77 a barrel last week, fell back after a ceasefire was agreed in Lebanon.

Steady as she goes

The **euro area's** GDP grew by 0.9% in the second quarter compared with the previous quarter, its fastest rate for six years. It is the first time since 2001 that the 12-country bloc's quarterly growth rate has exceeded America's. Much of the impetus came from Germany, which registered a strong performance in its domestic market, offsetting a slightly weaker demand for exports. See article

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Lebanon and Israel

Nasrallah wins the war

Aug 17th 2006
From The Economist print edition

Bad news all round, especially if more of Israel's neighbours come to believe in Hizbullah's methods

AFP

HASSAN NASRALLAH and Ehud Olmert both say they won. But in asymmetrical warfare, the test of victory is asymmetrical too. Israel's prime minister set himself an absurd aim—the complete demolition of Hizbullah's power in Lebanon—and failed to achieve it. The shrewder Mr Nasrallah said victory would consist merely of surviving, and Hizbullah, however battered, did survive. On the last day it was not just standing, it also fired a record 246 rockets into Israel.

Hizbullah being what it is, Mr Nasrallah lost no time claiming that this was “a strategic, historic victory”; crowds in Tehran chorused that Israel had been “destroyed”. Did Hizbullah not kill 159 Israelis, including 116 Zionist soldiers? Israel being what it is, Mr Olmert's political foes lost no time denouncing the prime minister's failings as Israelis sank into a collective despond about the disappointing showing of their army and the blunting of their country's long-term deterrent power.

Mr Olmert, echoed by George Bush, says that Israel won because it has transformed Lebanon. Under Security Council Resolution 1701, which brought the fragile ceasefire, Hizbullah is to withdraw north of the Litani river, make way for the Lebanese army plus a strengthened UN force, and disarm. That would, Israel says, put an end to Hizbullah's “state within state”. And so it would—if it happened. But it may not. Within days of the ceasefire, Mr Nasrallah said it was “too early” to discuss disarming. Syria's president, Bashar Assad, said so too. And the likelihood of the Lebanese army or a UN force trying to disarm Hizbullah against its will is zero. Two years ago, the UN passed a splendid resolution, 1559, demanding the disarmament of all militias in Lebanon. If Hizbullah did not comply then, why should it do so now, flushed with self-declared victory and with Israel's army still inside Lebanon?

Lebanon could lose too

The plain fact is that if Hizbullah is ever to give up its weapons and become just another political party, it will be through the pressure of the other Lebanese, not as a direct result of Israel's war (see article). The diplomacy should therefore not be built on the pretence that Israel won a war it didn't. The more that Israel and America claim otherwise, the less able the caught-in-the-middle Lebanese government of Fouad Siniora will be to extract favours from Mr Nasrallah. A better idea would be to deprive Hizbullah of the pretexts it has invented for keeping up its war. It would be useful, for example, if Israel gave up the

Shebaa Farms, the bit of Syrian territory Hizbullah says is Lebanon's, and accepted a prisoner swap.

However, Israel needs to save face too. Mr Olmert has no interest in concessions that reinforce the idea that he led his warrior nation to defeat. Israelis feel they dare not let their country look weak. And now come ominous signs that it does. Mr Assad has started talking again about liberating the Golan Heights. Having previously denied arming Hizbullah, Iran this week started to boast about the weapons it sent. If Israel is to give up Shebaa at such a time it must have something big in return, such as the actual removal of Hizbullah's arms—not just their concealment—in the south at least. Since America is not seen as an honest broker, closing such a deal may well require some new mediator. France? Turkey? Germany? Without an agreement, the war could resume at any moment.

When will they ever learn?

If a deal is done, what lesson will Israel take from this war? Probably something along the lines of: more infantry, fewer tanks. Those who preach sagaciously from afar that Israel should learn something bigger—the necessity of making peace instead of relying on force—have not been paying attention.

The hubris that blinded Israel after its great victory of 1967 cleared decades ago. Since the 1980s at least two prime ministers, Yitzhak Rabin and Ehud Barak, gave their all in the search for peace. The first paid with his life and the second with his job. Even the hawkish Ariel Sharon budged. He pulled Israel out of Gaza and knocked the legs from under Israel's settler movement. The trouble for Israel is that in peacemaking, as well as in war, the enemy gets a vote. What the well-meaning protesters (see article) who have been marching in Europe in praise of Hizbullah refuse to acknowledge is that today, as in the 1940s, Israel still has some neighbours who continue to deny its very right to exist as a Jewish state.

This is not to say that Israel is blameless. It has made mistakes aplenty down the years. This war was probably just that: a mistake after a provocation and not a plot cooked up either by Israel and America against Iran, or by Iran against Israel and America, as the rival conspiracy theories go. It followed a bigger blunder: Israel's failure after Yasser Arafat's death to work seriously with his moderate successor, Mahmoud Abbas.

But peace does not depend only on Israel. Six years ago Israel withdrew from Lebanon to a border painstakingly demarcated by the UN. Hizbullah fought on anyway. Like Iran, it says its aim is Israel's destruction. Though an authentic political movement with a domestic agenda in Lebanon, it is also blatantly anti-Semitic. Mr Nasrallah once reflected that collecting the Jews in Palestine made them easier to wipe out. Its al-Manar TV station is a beacon of hate: one series purported to show Jews murdering Christian children to use their blood for Passover bread. Whether Hizbullah and Iran seriously propose to destroy Israel is hard to tell, but it is what they keep saying—and they have imitators. The Palestinians' ruling Hamas movement has not yet dared to say out loud that it accepts even the principle of sharing Palestine with a Jewish state.

Following Mr Sharon's withdrawal from Gaza, Mr Olmert hoped to follow his example by uprooting Israeli settlements from much of the West Bank. Hizbullah has now killed stone dead the idea of Israel giving up territory again without cast-iron security assurances. So there will be no leaving any of the West Bank until there is a deal. Israel must find some way to re-engage with the Palestinians. But right now it is not even talking to Hamas—and Hamas, after the Lebanon war, is in danger of subscribing anew to the old illusion that Palestine can be liberated by force. Black days ahead for the Middle East.

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Japan and its neighbours

Drawing Yasukuni's sting

Aug 17th 2006
From The Economist print edition

Japan must face up to the past, if it wants to lead in the future

AP

Get article background

WHEN he was running for office in 2001, Junichiro Koizumi, Japan's prime minister, promised to visit Tokyo's Yasukuni shrine every year and to do so on August 15th, the anniversary of the emperor's admission that Japan had lost the war. Mr Koizumi always kept the first part of his promise, but only this week fulfilled the second. In formal morning coat and preceded by a Shinto priest, he spent only ten minutes at the shrine. Yet his visit brought roars of “banzai” from the crowd and a storm of disapproval from neighbouring countries.

The shrine is a memorial to 2.5m Japanese war dead, but also the focus for unrepentant militarism. Fourteen top war criminals were secretly enshrined in 1978. A connected museum paints Japan in its wars of 1937-45 as the liberator of Asia, a victim of Western belligerency. Meanwhile, August 15th at Yasukuni is a Bartholomew Fair of thugs, fantasists in military garb, deniers of atrocities and xenophobes peddling conspiracy theories. In previous years Mr Koizumi chose less symbolic dates, emphasising the private nature of his visit. This week it could not have been plainer that he came as prime minister, the first to visit on August 15th in two decades.

Mr Koizumi is no diehard imperialist. He sees the war dead as victims of Japan's own militarism. He does not honour the criminals and has no truck with the museum. His backers say that his statements on these matters are rarely picked up by local critics or by China, which inveighs against him for manipulating history. Besides, they always say, for real abuse why not single out China itself? It uses the past to stoke anti-Japan hatred as a useful tool at home. True, but hardly to the point. Mr Koizumi's feat is to have let a Communist dictatorship wrest the high ground from a pacifist democracy.

The consequences extend beyond the refusal by China and South Korea to hold summit meetings with Mr Koizumi. They make territorial disputes harder to settle and lie at the root of regional opposition to Japan's attempts to gain a permanent seat on the UN Security Council. Mr Koizumi's visits, in short, have undermined his own vision of making Japan more “normal”—that is, ensuring for it a muscular presence in international affairs commensurate with its huge economy.

Will Mr Koizumi's presumed successor, Shinzo Abe, be any wiser? The chief cabinet secretary has impeccable nationalist credentials, so might be expected to compound the mess. On the other hand, only

a right-winger has the authority to draw Yasukuni's sting. And for the first time, polls suggest a majority of Japanese are against their leaders' shrine visits.

It is not just a matter of avoiding a needless provocation; Mr Abe should kickstart a long-overdue national debate about Japan's wartime responsibility. Somehow, the war criminals enshrined at Yasukuni will have to be removed, even though the shrine has private status. One idea is to turn it into a secular institution, where national leaders, the imperial family and even Chinese dignitaries could pay their respects.

Would China respond? Its leader, Hu Jintao, has also come in for criticism. Instead of harping on about atrocities in the first half of the 20th century, some thoughtful Chinese say, he should emphasise the second half, when Japan was a source of regional stability and a force in China's own modernisation. Japan's desire for “normalisation” aims only to build on those benign influences. The trouble is that, with no consensus about the past, Japan's establishment is inept at articulating a better future. That future should start at Yasukuni.

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After the terror plot

British exceptionalism

Aug 17th 2006
From The Economist print edition

What to do (and what not to do) about the radicalisation of British Muslims

Reuters

"WHY us?" Britons have been asking themselves this week, as they struggle through the chaos to which another terrorist plot has condemned their airports (see article). "What have we done to deserve this?"

The idea that Britain is receiving special attention from Islamic terrorism should not be exaggerated. In Canada 17 people were arrested in June on suspicion of scheming to blow up buildings there. France and the Netherlands have produced plenty of fanatics. The Madrid bombings in 2004 were Europe's most lethal terrorist outrage, while nothing has yet surpassed the horror of the September 11th 2001 attacks on America. Yet the plots of July 7th and 21st last year, the scheme foiled last week to bring down up to ten aircraft from Heathrow bound for America, and the spooks who know about these things all suggest that, right now, Britain faces a greater risk of home-grown terrorist attack than other rich countries.

There are three reasons for that. One lies in history. Most of the rich world's Muslims are immigrants and their families; but in America, everybody else is an immigrant too, so Muslims are no more nor less a part of the mainstream than the country's other hyphenated groups. European Muslims, on the other hand, are conscious of being a minority that contrasts, and sometimes conflicts, with an indigenous majority. What's more, American Muslims tend to be relatively well-off, upwardly-mobile types, while many British Muslims are the disaffected, unemployed children of illiterate workers shipped in as cheap industrial labour. Those factors help explain why fewer American than British Muslims have turned against their countries.

Britain's imperial past adds a further dimension. Unlike Muslims in the rest of Europe, who hail largely from Turkey and Africa, the largest group of British Muslims comes from Pakistan. Since Osama bin Laden and his deputy, Ayman al-Zawahiri, are believed to have taken up residence in Pakistan, al-Qaeda is now, presumably, under the protection of Pakistanis. The "Pakistanisation of al-Qaeda", as Olivier Roy, a French Islamic scholar, calls it, has strengthened the links between Britain and Islamist terror, and helps explain why 17 people are said to have been arrested in Pakistan in connection with the Heathrow plot (25 have been arrested in Britain).

Foreign policy offers a second explanation. Hostility to British troops' presence in Iraq and Afghanistan and to Tony Blair's tolerant attitude to Israel's pounding of Lebanon is certainly not the only reason for terrorist attacks. After all, September 11th happened before any of that, at a time when American and British troops were protecting Muslims in Bosnia. Even so, the near-unanimity of Muslim opposition to British policy in the Middle East, evident from opinion polls, may encourage the extremists to blow up

their countrymen. Indeed, ministers' refusal to countenance the idea that foreign policy influences the plotters is flatly contradicted by intelligence chiefs and other civil servants, who have made it clear, in briefings and leaked documents, that they think a perceived “war against Islam” is helping radicalise young Muslims.

A third explanation may lie in domestic policy. Some critics argue that Britain's espousal of a “multicultural” rather than “integrationist” model for dealing with minorities—leaving them to their own devices, rather than trying to absorb them into the national culture—has contributed to a sense of alienation which polls suggest is sharper in Britain than in other countries. True, there are differences in some symbolic areas. In France, for instance, girls may not wear headscarves at school, while in Britain they can attend classes in full *hijab.* But the distinction between the two approaches is, at the moment, greater in theory than in practice.

The danger of appeasement

If the truth lies in a mixture of all three explanations, then there is no simple solution. But there are things the government can do. It should, for instance, keep up the pressure on the Pakistani government to shut down organisations that foster terrorism and to hunt down perpetrators. And it should abandon its own policy of increasing the number of religious schools. State funding for faith-based education is usually a bad idea in itself, for religious discrimination should have no place in 21st-century education. And these days, there is a sharper objection: policies that deepen religious divisions can be dangerous.

There are also things the government should not do. The suggestion by a group of Muslim MPs and other “community leaders” that Britain should alter its stance on the Middle East for fear of alienating more Muslims was deservedly slapped down by ministers. There are good reasons for changing policies. Placating aspiring murderers isn't one of them.

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The war against AIDS

Look to the future

Aug 17th 2006
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The West will probably have to support a generation of "medical pensioners" in Africa

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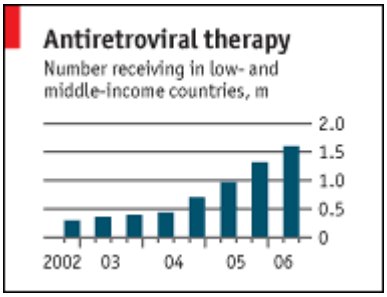

NO GOOD deed, as the saying has it, goes unpunished. That surely risks being so if, as is devoutly to be hoped, the AIDS epidemic now ravaging the world is brought under control by treating those who are infected. The reason is that AIDS drugs do not cure; they merely hold the virus at bay. Withdraw them and viruses will emerge from hiding places in the body that drugs cannot reach. Treat someone for AIDS, then, and you take on a responsibility that ends only at death.

Until recently, that did not matter. The bulk of those in treatment were in rich countries. People in the rich world are used to forking out for those of their fellow citizens who have incurable conditions. Yet as anti-AIDS drugs are distributed in large numbers in countries where taxpayers cannot afford them, that calculus changes. The intention, loudly proclaimed by the G8 meeting in Scotland last year, is that drug treatment should be available by the end of the decade to all who need it. Even if that deadline is missed (and it probably will be), millions of poor people will be on the drugs by then.

But the G8 did not address the question of how those people will be kept on drugs indefinitely. It costs about $1,000 a year, in drugs and support facilities, to keep alive an AIDS patient in a poor country. The best estimate is that 6m-7m people need such treatment, so if the treatment-for-all goal were met tomorrow it would cost $6 billion-7 billion a year. But that is only the beginning.

At the moment, around 4m people are newly infected each year, but 3m of those already infected die. With treatment, many fewer would die. Not all of the 39m now infected with HIV need drugs straight away, but almost everyone needs them eventually, so the number on drugs would rise fast. A bill of $40 billion by the end of the next decade is conceivable.

Better than a cure

That is one reason why the AIDS establishment, after years of focusing on treatment, has swung around to prevention. This was the theme of the International AIDS Conference just held in Toronto (see article). But possible new prevention strategies, such as vaginal microbicides and prophylactic drugs, will take time to slow the rise in infection, even if they prove efficacious. Short of a medical breakthrough of which there is as yet no sign, the numbers will not fall.

This will create a huge group of people who are, in effect, medical pensioners. Someone will have to pay for them. The first call, obviously, should be on the taxpayers of the countries where they live. Lots of middle-income countries are rich enough to carry the burden themselves. They should be encouraged to do so. But many places, especially in Africa, where a larger share of the population needs treatment, are unlikely to be rich enough for a long time—and their dependence will be further prolonged if their populations are sick and dying.

Despite the constant harping of AIDS activists about the stinginess of governments, the rich world has been reasonably generous about AIDS over the past few years and a lot of money is available. But both of the main vehicles for handing out the money—PEPFAR and the Global Fund—are fragile. The Global Fund, which receives its cash from such sources as governments and charitable foundations, lives a hand-to-mouth existence, spending as it goes and hoping that its begging-bowl will be replenished.

PEPFAR, the American President's Emergency Plan for AIDS Relief, is George Bush's creation, and will need to be re-endorsed when his term is up. There must be a plausible long-term commitment that these institutions, or their successors, will not be left in the lurch. For that would leave millions of sick people in the lurch, too.

Obviously, no government can bind its successors. But the G8 countries (or at least the G7, for Russia has its own AIDS epidemic to deal with) should give an undertaking that they understand what they are getting themselves into. Taking on millions of medical pensioners is indeed a huge commitment. But do not start what you cannot finish.

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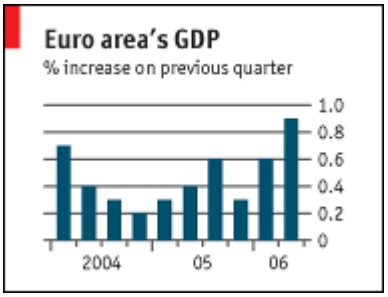
The euro area's economies

A fair but fading wind

Aug 17th 2006
From The Economist print edition

Don't get your hopes up too high about growth in the euro area



IN A field as error-strewn as economic statistics, caution is always wise. This week's data, though, leave little room for doubt. If the initial estimate for the second quarter of 0.9% is right—and adjustments to Europe's numbers, unlike America's, have tended to be upward—the euro area's GDP grew at an annual rate of 3.7%, its fastest for six years. For the first time in seven years, the zone outran America, Britain and Japan.

Does continental Europe, becalmed for so long, at last have the wind in its sails? It would be convenient for the world economy if it did, because America, the powerhouse for so long, seems to be slowing. But do not expect this summer's rate of knots to be maintained in the euro zone. That is partly because of a series of short-term changes in the economic winds that will make it harder for the euro economies. But the main speed limit remains the same familiar problem: the reluctance of governments, especially in France, Germany and Italy, to embrace bold structural reform.

Tougher sailing ahead

There are three short-term reasons to expect slightly choppier waters in the euro zone. The easiest one to exaggerate is the slowdown in America, where growth tumbled to (an annualised) 2.5% in the second quarter and where consumers will surely be less willing to snap up German plastics and French perfumes. In fact, the euro area's growth increasingly seems to be being pushed along by its own consumers' spending rather than exports. The zone as a whole depends on exports much less than its individual countries do: the 43% of Germany's exports going to other members of the club count as domestic demand at the level of the euro area. And America is less important as an export market for the zone than you might expect. Britain counts for more; so, combined, do other European Union countries. And when it comes to recent additions to exports—which is what really matters for growth—China is buying an ever bigger share. On the other hand, a slowing America is plainly no help to Europe's exporters.

The second reason to expect a slowdown is that some euro-area countries, notably Germany and Italy, are due to tighten their budgets. That their public finances need repairing is not disputable; the timing and style of the repairs is, especially in Germany. Just when German consumers seem to have recovered their confidence, after years of low wage-growth and worries about jobs and pensions, the government wants to raise value-added tax by three percentage points next January. Paradoxically, this may boost growth in the second half of this year, as spending is brought forward to beat the tax increase. But it will surely hold the economy down at the start of 2007.

Third, the European Central Bank (ECB) is providing less of a following wind than it did. It started raising interest rates last December and is expected to keep doing so at least until the end of this year. So far, there is little sign that these rate increases are holding the euro zone back, but eventually they will have an effect. And the second-quarter spurt makes further rises in interest rates more likely.

Not feeble, but slower than it could be

You may wonder why, if demand is likely to ease, the ECB is so eager to raise rates. The reason lies not with demand, but supply. No one knows for sure how fast the economy can grow without causing

inflation to rise appreciably; but the ECB thinks that anything much faster than 2% looks dangerously quick. In the second quarter the euro zone seems to have grown at almost twice its sustainable pace.

Next to America, all this looks pretty feeble. In fact, it is mostly to do with Europe's slower population growth. Kevin Daly, an economist at Goldman Sachs, points out that in terms of GDP per head the euro zone has grown almost as fast as the United States in the past decade. And Europe's speed limit may be rising: inflation, although above the ECB's target, has been stable even though the unemployment rate has fallen.

That said, there is plenty that governments should do to make faster growth sustainable, by raising the proportion of people in work and by helping to make those with jobs more productive. This would be a good time to do it: those who balked at reform in sluggish times, worrying at the pain it might cause, now have less excuse. Competition in service markets is one area from which politicians have often shied away. And in several countries too many people are encouraged to quit work in their 50s. With the number of older workers bound to rise, this is a waste Europe cannot afford.

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On support for Israel, Georgia, Britain and the Suez crisis, Canada, English

Aug 17th 2006
From The Economist print edition

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Israel and its neighbours

SIR – It seems odd that Jewish migration following the Holocaust was not cited by you as one of the more "obvious" reasons for America's "unconditional support" for Israel ("To Israel with love", August 5th). Most of the Jewish survivors and displaced settled in America and Israel after the war as they either could not or did not want to live in Europe. Consequently, many Americans have grown up with Jewish friends who lost relatives in the Holocaust; non-Jewish children attend bar mitzvahs and Jewish identity in popular culture is prevalent. For many people here sympathy towards Israel comes not from a lobbying effort or a yearning for the apocalypse, but from a familiarity and a commitment to the belief that Israel should exist, something that Europeans seem to be increasingly ambivalent about.

Vanessa Johnson
El Paso, Texas

SIR – Much as one condemns the bellicose behaviour of Hizbullah in Lebanon and the hostile actions of Hamas in Palestine, it is hard to understand how Israel could justify its retaliation as self defence. By blasting infrastructure across Lebanon and targeting residential areas and blocking food and fuel supplies, Israel used its military supremacy like a rogue state. Of course Israel has a right to defend itself, but that does not mean it is free to inflict a collective punishment on a whole population. It was pathetic that the world watched the devastation and the killing of civilians and took no immediate action to stop it.

Samih Sherif
Montreux, Switzerland

SIR – You repeated the old fiction that American support for Israel is unconditional and unquestioning. If Israel expressed an intent to destroy Arab nations or if the Israeli military were to hide its fighters among civilians then I expect that the American view would be different. The real issue is why does so much of the world offer unquestioning support for Hizbullah and unconditionally condemn Israel?

Mark Paskowitz
London

SIR – In analysing why it is that Americans support Israel you omitted to mention intimidation. Many of us who feel that such unconditional support is not in America's national interest discuss it only among ourselves, fearful of being tarred with the label of "anti-Semite" that is invariably thrown at Israel's critics. Such a tactic is calculated, methodical, invidious—and remarkably effective.

Byron Miller
Raleigh, North Carolina

SIR – As an American born here in 1982 to Lebanese parents it was disheartening to watch the destruction of Lebanon. The country I knew was one of revival and hope and "paradise lost" was a sentiment once reserved for the generation of my mother and father. If Israel's purpose was to enrage and embitter a generation of us who seek a just and lasting peace, then its assault was a wild success.

Khaled Hal Saad
Oakland, California

SIR – It is a mistake to think that Israel won a “lopsided” victory in the 1948 Arab-Israeli conflict (“The war beyond the war”, August 5th). During the war Jewish Jerusalem was shelled indiscriminately and besieged for months by Arab forces and saw its population almost reduced to starvation. Before Israeli forces were able to break through to relieve the siege Jordanian forces destroyed the Jewish quarter. Egyptian troops advanced almost to Tel Aviv before being halted by Israeli counter-attacks. All in all the Arab assault included numerous sorties that targeted civilians, who accounted for one-third of the 6,000 Jews killed in the conflict. It was an Israeli victory, but hardly lopsided.

Raphael Lerner
Glencoe, Illinois

Emerging nations?

SIR – There is another factor that explains the escalating conflict in Georgia (“Fighting talk casts a summer shadow”, August 5th). The truth is, Abkhazians and South Ossetians want to be part of Georgia about as much as Albanian Kosovars want to be part of Serbia. Ethnic cleansing in the early 1990s in Abkhazia was as severe as in the Balkans. And just as Kosovars found their saviours in American planes, Abkhazians sided with Russia to oppose Georgia. Not much “winning back” can happen in this land, which is probably for the better. You seem to be supportive of Kosovo's efforts to gain independence, so why shy away from the same principle for Abkhazia and South Ossetia?

Oleg Bibergan
New York

Britain's way in the world

SIR – You are correct to consider the Suez crisis as Britain's 20th-century Crimea (“An affair to remember”, July 29th). But you understated how significant the experience was for Britain's learning curve in post-war international relations. After the bruising encounter with Gamal Abdul Nasser's Arab nationalism, Britain actually went on to achieve quite a successful record in its Asian affairs. It was one of the first to exercise diplomacy with communist China, acquired good relations with the Bandung nations, and, during the Malay guerrilla war, it became the first power to use a campaign of “hearts and minds” to fight an insurrection. Harold Macmillan's “winds of change” demonstrated that a lot was learned from the lesson of Suez.

Tze Shiung Ng
Kuala Lumpur

SIR – Research suggests that the Russian vote at the UN in favour of the ceasefire resolution proposed by the United States on November 2nd 1956 was in no way related to supporting the initiative. Instead, it was part of a Soviet strategy to engage the UN and distract opinion from the Hungarian uprising, which was brutally crushed just two days later.

Eugene Siklos
Toronto

SIR – The UN took up a Canadian “suggestion” to send an international emergency force to the canal to monitor a ceasefire? The Canadian who made that suggestion, Lester Pearson, won the 1957 Nobel peace prize for his efforts and went on to become a brilliant prime minister.

R.M. Burns
Surrey, Canada

An overstated fact

SIR – Your article on citizenship in Canada stated that all Canadians “either came from somewhere else or are descendants of someone who did” (“I'm a lumberjack, and you're not”, August 5th). Good lord, I am in my 70s and my four grandparents were born here. How many years does it take to be recognised

as a native of one's country of birth?

George Parslow
Victoria, Canada

Like, duh

SIR – David Legard used sarcasm to criticise *The Economist* for employing a popular phrase (“it's sooo yesterday”) that flummoxed his language students (Letters, August 5th). But if he really does “appreciate excellent written English”, how can he not appreciate your use of humour? English constantly evolves and to anyone who thinks the language should be preserved in a state of petrified perfection I say: it ain't gonna happen, dude.

Colin Webb
Perth, Australia

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After the terror alert

Fear of flying

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From The Economist print edition

Airlines have been saved from a major calamity, but they did not escape unharmed

AFP

IF A little unseemly, the squabbles and threatened lawsuits between airlines and BAA, Britain's main airports operator, were oddly reassuring. Although less than a week had passed since British police said they had thwarted a plot to blow up as many as ten passenger jets flying from Britain to America, airlines and BAA were battling again on the familiar ground of efficiency, service and charges. Almost forgotten amid the frustration at long delays for passengers and recriminations over flight cancellations at Heathrow, Europe's busiest airport, was the fact that a calamity had been narrowly averted.

Although details of the alleged bomb plot remain sketchy, it seems to have been a collaborative effort between British-born Muslims and militants in Pakistan and Afghanistan. Investigations are continuing across parts of London, in Birmingham and High Wycombe, a town near the capital better known for its strange custom of publicly weighing its mayor than as a hotbed for radical politics.

The immediate risk of an attack appears to be diminishing—on August 14th, Britain's Joint Terrorism Analysis Centre lowered the country's threat level from “critical” (signifying an attack is imminent) to “severe” (an attack remains “highly likely”). But police are currently mounting some 70 anti-terrorism investigations in Britain, including 24 into “major” conspiracies, according to John Reid, the home secretary. Four “significant terrorist plots” have been disrupted since the London bombings of July 2005, he says.

The arrests were widely seen as a vindication of efforts by Britain's security services (see article). But they also raise disquieting questions for air travel.

First, despite very visible improvements in security at airports, including Heathrow (which is seen by experts as one of the best protected outside Israel), the arrests show that terrorists remain obsessed with attacking passenger jets. Second, even though billions have been invested in protecting airports—about $5.6 billion worldwide, or about $2.50 per passenger last year—the mechanics have not changed much (see article). There are still glaring weaknesses, most obviously that the scanners now in place cannot detect liquid explosives.

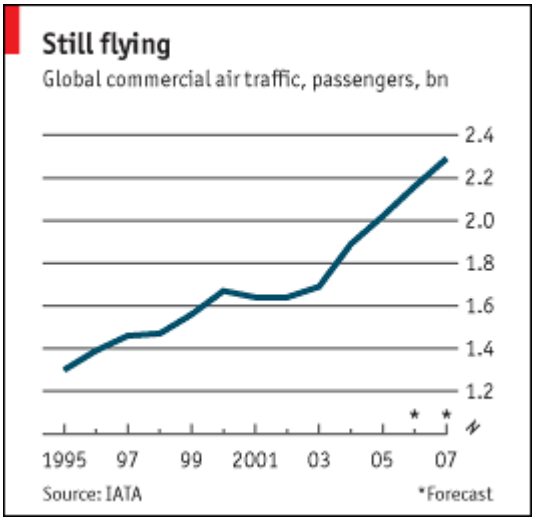
In response, airports were ordered to introduce unprecedented levels of security. Passengers leaving

Heathrow were at first barred from carrying on board all but the barest of essentials and all were subject to body searches. Restrictions have since been partly eased, but cabin baggage is now limited to a small bag and most liquids and gels are still banned. One in every two passengers is being searched. This has led to meandering queues, long delays and a mass of flight cancellations.

British Airways, Heathrow's biggest user, has cancelled more than 1,100 flights. Reuniting some 20,000 bags that went astray with their owners may take weeks. But passengers are a hardy lot, and generally bounce back from security scares. Although the September 11th 2001 attacks caused a sharp drop in worldwide travel, demand soon recovered. This was helped by price cuts. Filling planes is one thing; making them profitable another.

This month's disruption probably chopped some £50m ($95m) from the annual profit at British Airways, says Andrew Fitchie, an analyst at Collins Stewart, a stockbroker. EasyJet, a British low-cost carrier, probably lost about £10m. But there may also be longer-term impacts.

Despite the resilience of passengers, studies in America have shown they become less willing to fly as security adds time and hassle to the trip. Extra baggage screening on domestic flights in America in 2002 probably trimmed demand by about 6%, says Vrinda Kadiyali, a professor at Cornell University; demand for short-haul flights dropped 16% as passengers switched to driving. Passengers on Eurostar, which operates trains between London and continental Europe, jumped 27% in the first four days after airport security was tightened.



Low-cost carriers may be most affected. Ireland's Ryanair recently introduced a charge for passengers checking in bags. The main reason is that this helps it turn around planes within 25 minutes. Fast turnarounds help Ryanair keep its aircraft in the sky for about 12 hours a day, compared with the eight hours achieved by British Airways, says Mr Fitchie.

Forcing travellers to check in more bags seems likely to become a permanent feature in Britain. This will cause longer turnaround times with knock-on effects that could make a huge difference to the overall profitability of low-cost carriers, which operate on razor-thin margins. EasyJet, for instance, generates average revenue of less than £38 per seat. Its cost of flying that seat averaged almost £37 in the first half.

No wonder then that Michael O'Leary, the Irish head of Ryanair, has started waving the British flag: “Let's keep Britain flying,” he declares. Willie Walsh, the head of British Airways, accuses Heathrow of failing to plan for such an emergency. But next month, as both men respond to consultation on the fees that Heathrow may charge from 2008, they are unlikely to be repeating their demands for extra staff, greater capacity and better contingency planning. Which means passengers can probably expect more infuriating delays, queues and cancellations the next time round.

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Airport screening technology

Full exposure

Aug 17th 2006
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New methods to prevent terrorism on aeroplanes are being developed

AP

Man's best sniffer

DESPITE increased airport security since September 11th 2001, the technology to scan both passengers and baggage for weapons and bombs remains largely unchanged. Travellers walk through metal detectors and carry-on bags pass through x-ray machines that superimpose colour-coded highlights, but do little else. Checked-in luggage is screened by “computed tomography”, which peers inside a suitcase rather like a CAT scan of a brain. These systems can alert an operator to something suspicious, but they cannot tell what it is.

More sophisticated screening technologies are emerging, albeit slowly. There are three main approaches: enhanced x-rays to spot hidden objects, sensor technology to sniff dangerous chemicals, and radio frequencies that can identify liquids and solids.

A number of manufacturers are using “reflective” or “backscatter” x-rays that can be calibrated to see objects through clothing. They can spot things that a metal detector may not, such as a ceramic knife or plastic explosives. But some people think they can reveal too much. In America, civil-liberties groups have stalled the introduction of such equipment, arguing that it is too intrusive. To protect travellers' modesty, filters have been created to blur genital areas.

Machines that can detect minute traces of explosive are also being tested. Passengers walk through a machine that blows a burst of air, intended to dislodge molecules of substances on a person's body and clothes. The air is sucked into a filter, which instantaneously analyses it to see whether it includes any suspect substances. The process can work for baggage as well. It is a vast improvement on today's method, whereby carry-on items are occasionally swabbed and screened for traces of explosives. Because this is a manual operation, only a small share of bags are examined this way.

The most radical of the new approaches uses “quadrupole resonance technology”. This involves bombarding an object with radio waves. By reading the returning signals, the machines can identify the molecular structure of the materials it contains. Since every compound—solid, liquid or gas—creates a unique frequency, it can be read like a fingerprint. The system can be used to look for drugs as well as explosives.

For these technologies to make the jump from development labs and small trials to full deployment at airports they must be available at a price that airports are prepared to pay. They must also be easy to

use, take up little space and provide quick results, says Chris Yates, a security expert with *Jane's Airport Review*. Norman Shanks, an airport security expert, says adding the new technologies costs around $100,000 per machine; he expects the systems to be rolled out commercially over the next 12 months. They might close off one route to destroying an airliner, but a cruel certainty is that terrorists will try to find others.

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British Muslims

Miles apart

Aug 17th 2006 | BIRMINGHAM
From The Economist print edition

How the government is struggling to work with Muslim leaders

ASK any politician or civil servant who has tried: understanding the workings of British Islam, let alone nudging it in a particular direction, is hard. Intense rivalries divide the would-be leaders of Britain's 1.8m or so Muslims. The Muslim Council of Britain, which aims to speak for many shades of Islam, suffers internal strains and has been challenged by groups that claim to be more representative than it is. And there are regional variations. Birmingham and Bradford are home to families who came from poor villages in Pakistani Kashmir; the east Midlands took in more upwardly mobile east African Asians; east London received Bangladeshis; ports like Cardiff and Liverpool have been absorbing Muslims from Yemen and Somalia for over a century. Then there are European Muslims from Bosnia and Kosovo, and some very articulate Anglo-Saxon converts.

In recent days, after the government said it had foiled a huge terrorist plot and arrested 25 young Muslims on suspicion of involvement, the divisions have been put aside. Muslim leaders found a broadly united voice, which they used to denounce the government and its foreign policy as a factor in fomenting extremism.

Lord Nazir Ahmed, a successful Yorkshire businessman who has praised British society for the opportunities it gives to immigrants, insists that this cry of Muslim protest was not an act of self-segregation. By criticising British foreign policy—at a time when most citizens of all faiths regret the intervention in Iraq and wish that the fighting in Lebanon had ended sooner—"we are simply showing we are part of British society."

Government ministers did not see it that way. John Reid, the home secretary, called an open letter of protest by six Muslim parliamentarians and 38 Muslim groups a "dreadful misjudgment". Ministers reacted coolly to Muslim demands for a redoubled effort to make their people feel at home—by, for example, recognising the validity of *sharia* law in "private affairs" such as inheritance and divorce.

But in political terms, the new stridency among senior British Muslims is probably the bare minimum of assertiveness they could show while keeping any credibility with their grassroots. In districts of central Birmingham where people rely heavily on Islamic or Middle Eastern television stations and websites, images of the war in Lebanon have triggered a surge of anger. As one Muslim activist says: "When people see images of dead children's bodies, their blood boils. The question is how to channel your grievance."

There is a big argument going on among British Muslims: is it worth participating in democratic politics? British involvement in the Middle East—through the Iraq war and Tony Blair's support for America's stance towards Israel's invasion of Lebanon, for instance—raises the volume of the debate.

Until recently, discussion about British Islam reflected an assumption shared by the government and its Muslim interlocutors: that extremism was alien to most British Muslims, and squeezing it out was a simple matter of finding the right words to explain that violent behaviour was an aberrant reading of Islam. That assumption—and therefore the basis of deal-making between the government and Muslim leaders—seems increasingly doubtful.

Some recent opinion surveys have shown a frighteningly high level of openness to extreme views. One poll, by NOP for Channel 4 television, showed that 19% of British Muslims "respect" Osama bin Laden; another poll, by Populus in June, suggested that 13% of British Muslims regard the suicide-bombers who attacked the London underground in July 2005 as "martyrs". The government's willingness to make concessions to Muslim "community leaders"—for instance, in promoting a bill to limit freedom of speech

likely to promote religious hatred—has been criticised by some. What's the point, they ask, of junking ancient freedoms to placate Muslims when radicalism continues to spread?

And divisions among Muslims are making it increasingly hard to make deals with them. The government landed on the Muslim Council of Britain as the most representative organisation it could find. But now a new British Muslim Forum says that it has a better claim to that title.

Above all, on a worrying number of issues the basic approaches of Muslim and non-Muslim policymakers are miles apart. For example, whereas many fear that Muslim-only schools are potential breeding grounds for extremism, Muslim leaders argue the opposite. “Unless we have Muslim schools, people will not be able to make a moral judgment between acts of mercy and acts of murder,” says Tahir Alam, a leader of the Islamic education movement in his native Birmingham.

Immediately after the July 2005 bombings, a large, slow process of consultation was set in motion to ascertain and deal with the causes of Muslim extremism. This duly served up more than 60 recommendations. For the government, this consultation was an act of generosity by a state that was open to constructive suggestions. Muslim participants say they “exposed themselves” to the risk of seeming like stooges, only to see most of their recommendations (such as their call for a public inquiry into the July 2005 bombings) ignored. Among the few concrete results was the establishment of a new self-regulatory body to upgrade the quality of imams. Here again, perceptions differ: some Muslims see this as state interference; those who fear extremism see it as toothless.

Not all the news is bad. Sophie Gilliat-Ray, who oversees a network of academic research on British Islam, says there are many signs of British institutions and Muslims interacting in creative ways: from the willingness of banks to offer *sharia*-compliant financial services to the establishment of Muslim “chaplains” in prisons and hospitals, and the emergence of a lively Muslim press, with women journalists in the lead.

The trouble is that even on the most optimistic assumptions, the process of “adaptation”—through better-trained imams, schools that teach moderation, or thoughtful Muslim newspapers—is relatively slow. Meanwhile the process whereby disaffected Muslim youths can “teach themselves extremism” on the internet can be terrifyingly rapid.

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MI5

Salute the spooks

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An expansion in domestic spying produces the goods

REPORTING on intelligence is always, to some degree, an act of faith. Unable to check their sources, even the most sceptical hacks risk becoming ciphers for government spin—as so lamentably happened in the run-up to the war in Iraq. Yet a certain smugness discernible in British spooks since the foiling of the latest alleged Islamist terrorist plot seems well-earned nonetheless: it appears that MI5, the agency that counters domestic threats, has done a sterling job.

Though assisted by spy agencies in America and Pakistan, it played the dominant role in the operation. It had the alleged plotters under surveillance for almost a year, after receiving a tip-off.

This was by no means the first such triumph for the Security Service, as the agency is also known: according to the government, it has foiled some 20 Islamist terrorist plots in the past few years. In one of the few that has come to trial, a plan to bomb a shopping mall was allegedly foiled when agents sneakily replaced bomb ingredients with an inert powder half-way through the surveillance mission. But the latest intelligence operation, it is claimed, was by far the longest-running, to give police the best possible chance of gathering admissible evidence. It perhaps also involved a breakthrough in MI5's efforts to infiltrate parts of Britain's Muslim community.

Less secretive than its foreign-focused sister agency, MI6, the Security Service credits its achievements to expansion and reforms. On September 11th 2001, it had 1,800 members; by 2008 it will have 3,500. At least 10% of its intake must be non-white, in part signalling an effort to recruit Muslims. In a recent drive to hire black and Asian women, it has left flyers in the women's changing rooms of a popular gym chain. Yet 90% of new recruits are contacted through its website, an innovation MI6 rejects. With its extra resources—underwritten by a projected 40% increase in the total intelligence budget between 2004 and 2008—MI5 has also expanded its reach, establishing regional offices and posting a few officers overseas.

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Pakistan

School for terror

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Despite its success against al-Qaeda, Pakistan is an extremist haven

FOR a pleasant change, Pakistan has won praise for its efforts in helping British spies foil the latest grand terrorist design, most of whose 23 alleged plotters were Britons of Pakistani descent. Officials in Britain and America talk of their excellent co-operation with Pakistan; some speak admiringly of its disciplined intelligence agencies. Intelligence types in all three countries say al-Qaeda, whose fugitive leaders are believed to be close to the border between Afghanistan and Pakistan, was probably involved. Pakistan is believed to have arrested 17 people in relation to the plot, including one in the border area, Rashid Rauf, a 25-year-old Briton whose brother Tayib was among the alleged plotters arrested in Britain.

And that may be about all that anyone knows at this stage. Other delicious details have been hotly aired. Speculation has surrounded Hafeez Saeed, who founded the biggest jihadist group fighting in disputed Kashmir, Lashkar-e-Toiba (LT). He now heads an Islamist charity, Jamaat ud Dawa (JUD), which is a front for the armed group. Mr Saeed was arrested shortly before the plot was foiled. JUD, which is legal in Pakistan, was banned by America in April. Some pundits have suggested the group was involved in funding the recent plot, having raised millions of dollars last year to provide relief to earthquake victims in Kashmir.

But there is nothing to confirm this. JUD and LT were formed to attack India; they have shown scant interest in joining a global *jihad*. It is likelier that Mr Saeed was arrested under pressure from America, to placate India, after bomb attacks last month in Mumbai.

Shorn of such spicy intrigues, in fact, there would be little new in Pakistan's latest contribution to the war on terror. Since joining it, by abandoning its Taliban proxies in Afghanistan in late 2001, Pakistan has pursued al-Qaeda with quite impressive success. It has arrested or killed scores of its members, allegedly including the group's last three global operations chiefs, the most famous of whom, Khaled Sheikh Mohammed, masterminded the September 11th 2001 attacks.

Goaded (perhaps unwisely) by America, it has sent 80,000 troops into its tribal border area, thereby starting a war with tribesmen in which 800 soldiers have died. Lest anyone doubt these efforts, Ayman al-Zawahiri, al-Qaeda's second-in-command, has often called on devout Muslims to kill Pervez Musharraf, Pakistan's president. On several occasions, some of them have tried to do so.

And yet Pakistan is home to a broad Islamist militant threat of which al-Qaeda is but one part, and this is less easily countered. There are scores of extremist groups in Pakistan and thousands of trained Islamist killers. Most of these have been nurtured by successive military governments, to fight their wars in Afghanistan, Kashmir and Pakistan's own riotous cities.

Thus encouraged, and with the country's secular institutions reeling under corruption and neglect, a sizeable part of the general population has been radicalised. According to various estimates Pakistan has between 10,000 and 40,000 religious schools, or *madrassas*. A few of these are said to provide military training. In such an environment, European extremists, especially those of South Asian descent, can certainly find the inspiration and technical know-how they need to launch attacks.

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About sponsorship

Crime

Murder most common

Aug 17th 2006 | MINNEAPOLIS AND NEWARK
From The Economist print edition

Reuters

The murder rate, falling in America's biggest cities, is rising in middle-sized ones

THE streets of north Minneapolis do not display the normal signs of lawlessness. Windows are mostly free of iron bars, lawns are clipped and there is little graffiti. Sweeping the pavement outside his house in the morning, though, George Roberts occasionally finds a bullet. And some properties are pockmarked with scattered holes. What the local gunmen lack in accuracy they make up for in enthusiasm.

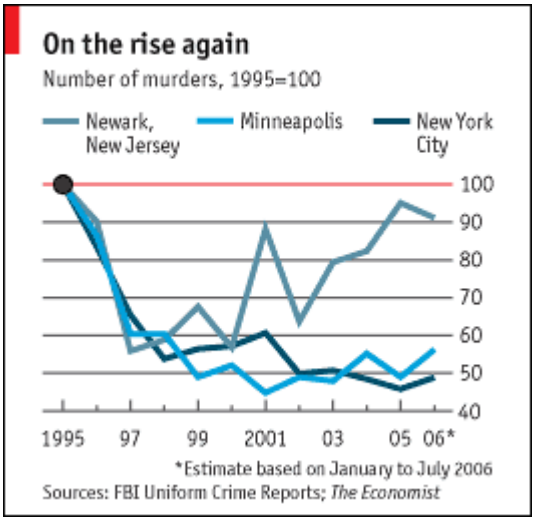
Last year Minneapolis had 49 homicides. So far this year 41 people have been killed, most of them shot in the street by men in search of money or drugs, or with a score to settle. The level of violence in this city of 370,000 is “off the chain”, according to Lee Edwards, who investigates murders. Minneapolis's homicide rate is now almost twice that of New York. And it is moving in the wrong direction.

It is a similar, or worse, story in Newark, a poor New Jersey city of 280,000 that had 97 murders last year. Like Minneapolis and nearly everywhere else in America, Newark's violent-crime rate dropped steeply in the mid-1990s (see chart). Then it began to rise again. As the murder rate in bigger, more notoriously violent cities such as Chicago, New York and Los Angeles has steadied or continued to fall in the past few years, Newark, along with other cities of similar size, has become deadlier. According to the FBI, murders in cities of more than a million people rose just 0.5% between 2004 and 2005. In cities of a quarter to half a million, they rose by 9.4%.

Fear of crime is already transforming local politics. In May Cory Booker was easily elected as mayor of Newark. He had run as a crime-buster; since his inauguration he has even tried to tackle a mugger. The mayor of Minneapolis has been barracked over the rising crime rate and the appearance of gangs of toughs in the otherwise tidy city centre. This week he promised to pay for more police officers.

Public anger is justified, particularly in Newark. An investigation this year by the *Star-Ledger*, a local paper, found that fewer than half the murders carried out between 1998 and 2003 in Essex County, which includes Newark, led to a conviction. That is not because the killers are especially cunning. Allen Reese was

shot 18 months ago by a man who took his mobile phone and used it to direct relatives to Reese's body. The killer made several other phone calls, revealing where he was each time. Last month, police at last arrested Noah Cuebas and charged him. While on the run, they believe, he had also hijacked a car and raped two women, one of whom he killed.



Part of the problem is lack of means. Since 2000 both state and federal spending on the police has become stingier. And much of the money, when it comes, is wasted. Newark and Minneapolis are policed by an odd mix of forces, from city and state cops to armed university guards. In Newark murders are investigated by county prosecutors, but shootings are not, even though the only difference may be luck and good medicine. Confusion, overlap and inefficiency are the result.

The real problem, though, is to do with the peculiar difficulties of policing cities the size of Newark and Minneapolis. In the past decade, two ways of tackling violent crime have dominated police thinking. Both were first tested in big cities, where they were highly successful. Neither works nearly as well in smaller ones.

The most famous is the “broken windows” or, more crudely, “zero tolerance” approach. As pioneered in New York in the early 1990s, this involved a crackdown on petty crimes such as fare-dodging and public drunkenness. Such incivilities were thought to create an environment in which serious crime could flourish. The approach worked splendidly in New York, partly because the city had reached such a pitch of criminality that many of the fare-dodgers were either armed or wanted for more serious crimes. Zero tolerance was an excuse to hoover them up.

New York's success inspired many cities, including Newark and Minneapolis, to try to emulate it. They are still trying. Last year the Minneapolis Police Department proudly unveiled a programme called Strategic Tactical Operations, which borrowed from the New York model. The police presence would be so heavy, promised their chief, that hoodlums would decide to leave their guns at home. The result: slightly more murders and a steep rise in robberies.

In Newark Mr Booker is also promising a zero-tolerance approach to crime. He is likely to fare no better. George Kelling, a local academic who helped devise the broken-windows theory, says sheer police presence was key to persuading New York's criminals to change their ways. But New York's police department has 116 officers for every square mile (45 per sq km). Newark's has 50. And it is harder to know where to put them. “Newark doesn't really have crime hotspots,” says Mr Kelling. “It has a couple of cool spots.”

The second method of tackling violent crime is more direct. Lawless areas are flooded with police, social workers and probation officers. People who are thought most likely to kill or be killed (such as those recently released from prison) are watched closely. Most important, gang members are told that violence by one of them will lead to a crackdown on the whole gang. This method worked well in Boston and Chicago, but in both Minneapolis and Newark it has failed to reduce the murder rate. That is almost certainly because these cities have the wrong kind of gang.

The advantage of organised crime

Gang members are responsible for much of the violence in both cities, but not in a disciplined way. In Newark, a third of the killings that took place between 1997 and 2005 involved gang members, either as victims or as perpetrators. Just one in 20 murders, however, seems to have been carried out in order to advance the interests of the gang—to dislodge a rival outfit from drug-dealing turf, for example.

Neither city really has defined turf, or even defined gangs. The gangsters of Minneapolis tend to be affiliated with large national collectives such as the Bloods, Crips and Vice Lords. But only loosely. Local “sets”, such as the Emerson Murder Boys, often have nothing to do with other sets that claim allegiance to the same gang. Indeed, they may be rivals, killing one another over drugs and women. Gangs also change names and affiliations, “like an ugly caterpillar turning into an ugly butterfly”, as Mr Edwards puts it.

These fluid groups are just organised enough to get their hands on drugs and handguns, but not organised enough to prevent squabbles within the ranks. As a result, they are particularly murderous. They are also hard to tackle: as officers complain, they cannot be decapitated by taking out one or two prominent figures. It is best for a city to have no gangs at all. But if it must have gangs, it is probably better to have large, organised ones.

In Newark, the forces of law and order have now resorted to sending in the clergy. After a shooting, outreach workers hand out leaflets, chant anti-violence slogans and put signs on people's lawns. In effect, they are behaving like a gang marking its territory. The approach is working so far, though it may not last. What is certain is that the solution to Newark's—and Minneapolis's—crime problem is unlikely to come from a distant metropolis.

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Murder mysteries

Minnesota noir

Aug 17th 2006 | MINNEAPOLIS
From The Economist print edition

Why do the Twin Cities produce so much literary gore?

AARON LANGER is having a busy day. An elderly Jewish nursery-owner has been killed by a bullet to the head and another man has been shot, abducted, tied to railway tracks and literally frightened to death. Before writing his report, the detective pauses to admire the Minneapolis skyline. “It was a pretty city,” he muses. “Not the kind of place you'd expect to produce such a killer.”

Ah, but it is. The killers of “Live Bait”, a novel by P.J. Tracy, are not unusual for the city, nor are they especially savage. “Twin Cities Noir”, a book released this year, assembles twisted tales from 15 other writers, and at least seven more in recent years have published crime novels set in the same place. In the minds of local authors, at least, the adjacent cities of Minneapolis and St Paul produce an uncommon number of murderers, gangsters, pimps and other low-lifes.

Minneapolis, with its gleaming skyscrapers and wide boulevards, hardly looks noirish. It has murders, although not as many as Milwaukee and Kansas City, which produce much less crime fiction. And it is certainly not as lethal as John Sandford, one of the region's most successful and prolific writers, imagines. If it were, the population of Minneapolis would be considerably lower.

Minneapolis and St Paul do, however, have a lot of people working in two professions that favour the same clipped, direct style that is the stock-in-trade of mystery novelists. One is advertising, which has groomed at least four writers. The other is journalism. The Twin Cities have two major newspapers, the St Paul *Pioneer Press* and the Minneapolis *Star-Tribune*. The latter, as the fictional detective Rushmore McKenzie puts it, “often seems to be written by closet suspense novelists”. As a former journalist, David Housewright, who created the character, ought to know.

Then there is the weather, which is splendidly atmospheric. The Twin Cities have hot summers and wildly erratic autumns and springs—a gift to mystery writers in search of colour. Winter is grim. As Brian Freeman, who has published a crime novel set in Duluth, in northern Minnesota, explains: “What is there to do during those long winter months beside sit inside and think dark thoughts of murder and mayhem?”

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About sponsorship

The culture wars

Straws in the Kansas wind

Aug 17th 2006 | WASHINGTON, DC
From The Economist print edition

Some defeats, and some victories, for religious conservatives

Get article background

ON AUGUST 1st, Kansas voters rejected two conservative members of its Board of Education in favour of slightly less conservative ones. That may not seem earth-shaking, but out-of-staters took notice. The ousted members were among those who, in November 2005, adopted science standards that called for critical examination of the theory of evolution.

This was just the latest shift in a struggle that has gone on in Kansas for years. The fact that the state is heavily Republican obscures a division within the party between those who care mostly about solid topics such as agribusiness, and those for whom cultural issues are paramount. The former, says Ed Larson of the University of Georgia, view themselves as “mainstream, respectable, Bob Dole-type conservatives” [referring to the state's most famous politician] in contrast to a “radical, know-nothing fringe”.

Every few years, however, hardline conservatives are able to nab a few spots on the school board, capitalising on the low turnout in primaries. Soon thereafter, anti-evolution measures pop up on the agenda. In 1999 six conservative members of the board led the drive to push through standards that erased all mention of evolution and also rejected the Big Bang. Half of those members were voted out at the next opportunity.

The standards introduced last November are comparatively unassuming. They avoid any specific reference to “intelligent design”, the idea that life is so mind-boggling that it can be explained only by reference to a higher power. The omission was strategic. “Conservatives have noted, quite correctly, that the courts respond very strongly to language,” says John Green of the Pew Forum on Religion and Public Life. Just last year, for example, a federal judge ruled that the guidelines introduced by a Pennsylvania school board, which did recommend teaching intelligent design, were unconstitutional.

It is surprising that voters responded so strongly to the idea of tampering with science standards. “Kansans are very sensitive to this issue,” says Mr Larson. “They don't want to be living in Oz.” However, only a minority of Americans are resolutely opposed to teaching creationism in public schools. According to a 2005 Pew Forum survey, almost two-thirds of Americans support teaching creationism alongside evolution. The idea enjoys majority support even among the secular-minded and those who believe creationism is wrong. “Most Americans are not engaged in this debate, but to the extent that they are, they support equal time—a provision that doesn't please either of the combatants,” notes Mr Green.

Kansas's new school board will most probably return to its former standards, and the debate will not be revived until the next election cycle. Meanwhile right-wing Christians, who have received several blows in the past few months, have plenty to keep them busy.

Earlier this year, pro-lifers in the South Dakota legislature passed an all-encompassing ban on abortion that made no exceptions for rape or incest. The law, which was aimed at provoking the Supreme Court to revisit *Roe v Wade*, the 1973 ruling that legalised abortion, was to take effect on July 1st. But its opponents gathered enough signatures to put the issue to a popular vote in the general election in November, and a recent poll suggests that South Dakotans will reject the ban.

In June, the Food and Drug Administration (FDA) approved a vaccine that protects against strains of the human papillomavirus, a sexually transmitted bug that causes 70% of cervical cancer cases. Some conservatives had opposed making the vaccine available because it would supposedly encourage

promiscuity.

Promiscuity seemed to be further encouraged in July, when the FDA announced it would reconsider the idea of making emergency contraception—the morning-after pill, sold under the brand name Plan B—available on demand to women over the age of 18. The announcement came the day before the agency's acting head, Andrew von Eschenbach, faced his confirmation hearing in the Senate. But it was made under political pressure from Democrats (Hillary Clinton in particular), who have pledged to hold up the nomination until they get a firm yes or no from Dr Eschenbach. They are pushing for a yes, but may well not get one.

The stem-cell wars

Conservative Christians claimed one victory on July 19th, when George Bush used the first veto of his presidency to block a bill that would have expanded federal funding for embryonic stem-cell research. But it was followed by a flurry of articles noting that a majority of Americans support such research. And the next day Arnold Schwarzenegger and Rod Blagojevich, governors of California and Illinois, pointedly skipped round the veto by announcing that they would continue to support stem-cell research with state money.

It would be premature, however, to say that the influence of the religious right on social issues is waning. A survey conducted from July 6th-19th by the Pew Forum on Religion and Public Life suggests that Americans remain divided on these subjects. Some 46% of respondents, for example, believe that abortion should be illegal in all or most cases, and 41% think that the morning-after pill should not be made available over the counter.

Republicans have won several primaries this year by running as social conservatives. On August 10th Joe Schwarz, a Republican representative from Michigan, lost a primary battle to Tim Walberg. Mr Schwarz was a moderate who supported abortion choice and stem-cell research, which Mr Walberg opposes. In May Ohio's evangelical secretary of state, Kenneth Blackwell, defeated Jim Petro, a moderate, for the Republican nomination for governor. Mr Blackwell would like to ban abortion and restrict stem-cell research, and opposes gay marriage on the ground that it “defies not only human logic but barnyard logic.” That sort of talk usually goes down well in Kansas, too.

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Fantasy baseball leagues

Dream on

Aug 17th 2006 | ST LOUIS
From The Economist print edition

The fans can play with statistics as much as they like

IT'S the bottom of the ninth, two outs, bases loaded (for non-baseball fans, an exciting moment in the game). An array of statistical measurements representing a batter in the real world steps up to an imaginary plate. Another set of statistics representing a pitcher winds up for an imaginary pitch from a non-existent mound. A calculation weighting all these factors then computes whether the batter hits a home run, or strikes out, or anything in between.

AP

A stretch too far for the Major League

This scenario and every possible permutation are repeated millions of times a year by the legions of Americans who play fantasy baseball. Fans pick teams from lists of real players and pit them against other teams in a league. Other leagues exist for football, basketball, hockey and even NASCAR (stock-car racing), but baseball dominates an industry that is now worth $1.5 billion a year.

Although the games are pure fantasy, they are grounded in reality: the seemingly endless sets of numbers published in almost every daily newspaper in America. But do the players have right of publicity over this data? The Major League Baseball Players Association (MLBPA) has been arguing that they do. And Major League Baseball, not content with running a sport of $8 beers, $100 seats, $4.50 hot dogs and steroid-warped records, has been demanding payment for the use of players' names and statistics in fantasy-league games.

In vain. On August 8th a federal lawsuit between the league and CBC Distribution and Marketing, the parent company of CDM Fantasy Sports, based in St Louis, was decided in favour of the fantasy leagues. The court ruled that the names of players and their numbers are in the public domain, and that the leagues have a first-amendment right to use them freely over and above any rights the MLBPA or the players may have. The court also ruled that the data is not subject to copyright.

Major League Baseball has said it will appeal. CDM is a relatively small player, but much is at stake for fantasy leagues run by ESPN, Yahoo! and CBS Sportsline, giants of the industry, all of which have paid licensing fees to the MLB and to players. Much is also at stake for the wannabe George Steinbrenners in their field of dreams.

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Greenery in California

Clearing the air

Aug 17th 2006 | LOS ANGELES
From The Economist print edition

A chance to see the hills again from the San Joaquin Valley

ARE the pressures of industry and a growing population conspiring to spoil the Californian dream? According to the state-sponsored California Climate Change Centre, California's 36m car-addicted residents already breathe America's worst air, with 90% of them living in areas that violate the state's air-quality standards. The rich fields of the San Joaquin Valley sit under a cloud of pollution so thick that the surrounding mountains can barely be seen; the brown layer of air over Los Angeles, which produces spectacular sunsets, also contributes to a statewide count of some 8,800 deaths and $71 billion in health-care costs a year.

Moreover, worse is supposedly to come. “By mid-century, extreme heat events in urban centres such as Sacramento, Los Angeles and San Bernardino could cause two or three times more heat-related deaths than occur today,” says the Centre's latest report. With less snow likely on the Sierra Nevada, there will be less water for both agriculture (a $30 billion industry employing 1m workers) and cities. By the end of the century, California's already frequent wildfires could increase by anywhere from 30% to 90%. Rising sea levels could erode those magnificent beaches and lead to coastal flooding.

So what is a canny politician to do? Evidently, propose some green-sounding measures and hope they work. This week the state's lawmakers in Sacramento, pressed by an end-of-August deadline, began their final wrangles with Assembly Bill 32, which would make California the first state in the country to impose pollution caps on smog-making industries. Last year California was the world's 12th-biggest producer of greenhouse gases, and the heroic aim of the new bill is to reduce these to their 1990 levels by 2020, which would mean a cut of 25% from projected levels.

All this makes great electoral sense in a state where 80% of the residents say global warming is a “very or somewhat serious threat” to California's quality of life. Arnold Schwarzenegger, who is seeking re-election as governor in November, is particularly keen to burnish his green credentials. Last year, for example, he set the goals that underlie the new bill. Greenhouse gases must be down to their 2000 level by 2010, to 1990 levels by 2020 and, amazingly enough, 80% below 1990 levels by 2050. Last month he signed an agreement with Britain's prime minister, Tony Blair, that could lead to the transatlantic trading of carbon-dioxide pollution credits. Two years ago his administration announced that from 2009 it will impose on carmakers mandatory reductions of greenhouse gases from their vehicles, the first such regulation in the country.

Yet at least some of the political effort could turn out to be a lighter shade of green, for the simple reason that business groups, whose donations fill the campaign coffers, are unhappy. The American Council for Capital Formation says that AB32 is likely to cause “leakage” of industry and jobs to states with no emissions caps; and, because of population growth, it will in practice yield no net reduction in greenhouse gases. The California Chamber of Commerce, normally a loyal supporter of the governor, calls AB32 and his strategy on global warming “a job killer” which will increase costs for California businesses and cramp economic growth.

Mr Schwarzenegger, stung by that charge, is now proposing that the bill should be amended so that its deadlines can, if necessary, be extended. The Democrats are not impressed by this backsliding, but doubtless the voters will hardly notice, or may even be reassured. As for the green lobby, its view is that business is scaremongering. The National Resources Defence Council reckons the proposed curbs on pollution would save the state money that would otherwise be spent on importing oil. It would also put California at the head of a “clean technology” industry which, with global warming, can only grow bigger.

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Lexington

Rahmbo's Plan

Aug 17th 2006
From The Economist print edition

The House Democrats' chief enforcer offers some "Big Ideas for America"

RAHM EMANUEL, a congressman from Illinois, is often compared to Newt Gingrich. The head of the Democratic Congressional Campaign Committee is clever, energetic and utterly determined to win back the House of Representatives in November. He is also, like the man who led the Republicans to just such a triumph in 1994, somewhat abrasive. He once sent a rotting fish to a pollster who irked him. When he was only 32, his aggressive fundraising helped Bill Clinton win the presidency. At a dinner afterwards, while others celebrated, he snatched up a steak knife and started plunging it into the table, naming his political enemies and yowling "Dead!" after each stab.

Some say Mr Emanuel learned to act tough to pre-empt the jeers he might otherwise have attracted as a schoolboy ballet dancer in Chicago. (He was good—his mother was apparently upset when he turned down a scholarship to the Joffrey Ballet school.) Be that as it may, his style seems to work. "Rahmbo", as he is known, is skilled not only at squeezing money out of donors (if the pledge is too small, he lets them know), but also at making sure that the candidates who get it campaign effectively. He makes them sign agreements specifying how many appearances and fund-raising phone calls they will make. He approaches his job "with the sensibility of a Mob bookie", gushed a profile in *Rolling Stone* last year.

Next week Mr Emanuel will publish his answer to Mr Gingrich's "Contract with America", the small-government manifesto that helped Republicans capture the House in 1994. It is called "The Plan: Big Ideas for America", and is co-written with Bruce Reed, an old chum from the Clinton White House. It has signs of being written in a hurry. Was America in the 1950s and 1960s "a land of opportunity and certainty", as he tells us on page 31? Or has it "always been a land of opportunity, not certainty", as he says 11 pages later? The obligatory Bush-bashing is stale and waffly: "Bush inherited the longest economic boom in history and gave the middle class the highest anxiety in memory." But the Plan itself is solid and mostly sensible.

Probably the main reason wages have not risen much in recent years is that health-insurance premiums, which many American employers shoulder, have soared. The Plan lists ways to curb them. Doctors, rather than being paid for every test and injection they provide—an arrangement that inevitably leads to over-doctoring—should be paid by results. Patients should be given better incentives to stay healthy: insurers, for example, should push them to take free physical exams to spot ailments early. Better use of information technology could supposedly save $162 billion a year. If the system is made more efficient,

Mr Emanuel thinks coverage can be extended to all American children. But he concedes that a nation as individualistic as America will probably never accept a European-style national health service—and he should know, having worked on Hillary Clinton's doomed health project in the 1990s. He argues, however, that maybe, some day, every American might receive a voucher for basic health services from the insurer of his or her choice.

Mindful of the teachers' unions, he avoids the V-word when discussing education. But he has some sensible ideas. Subsidies for those who cannot afford to go to college are currently too complex; he would replace the five main schemes with a single $3,000-a-year tax credit. Teachers should be paid for performance, not just credentials. And schoolchildren should take shorter holidays. (The Democratic Leadership Council, a moderate Clintonian body, made the same proposal last month.)

Americans are not saving enough for retirement. Well, some are. Mr Emanuel, after six years as a White House aide, earned $16m in two and a half years as an investment banker. For those who lack his quick wits and fat Rolodex, however, he proposes other ways to build up wealth. Employees should automatically be enrolled in 401(K) pension schemes unless they object. The middle class should be exempt from capital-gains tax. And families with an income of less than $100,000 a year should surrender no more than 10% of it to the taxman. As a congressman, Mr Emanuel has proved himself something of a tax wonk, co-sponsoring a plan to do to the tax code's complexities what he once fantasised about doing to his political enemies.

Perhaps the most arresting part of the Plan concerns national security, the Democrats' perennial weak spot. Again echoing Senator Clinton, he wants 100,000 more soldiers for America's overstretched army. He also wants an elite agency to fight domestic terrorism, like Britain's MI5. Of George Bush's Department of Homeland Security, he scoffs: “[It] has 180,000 employees. The London bombings in July 2005 were the work of four men with backpacks. Whose organisation chart would you rather have?” Most radically, he wants all Americans aged 18-25 to undergo three months of compulsory disaster-training.

Oh come, come, Emanuel

Wouldn't it be more efficient to hire more professionals—paramedics, firemen and so forth? Not in Mr Emanuel's view. He does not want merely to prepare for future disasters; he thinks his “universal citizen service” will bring youngsters of all backgrounds together and teach them what it means to be American. “The French abandoned the idea [of national service] a decade ago, and now watch their young people riot in the streets,” he says. This is a feeble explanation for the French riots. And Mr Emanuel's scheme will remind many Americans that the Democratic Party likes social engineering more than they do.

As a whole, the Plan will help rebut the charge that the Democrats have no ideas. And if they win in November, they can always ditch the more radical parts. A Plan is less binding than a Contract, and Mr Emanuel is not the Democrats' leader in the House. At least, not yet.

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Cuba and the United States

Not gone yet

Aug 17th 2006 | HAVANA AND MIAMI
From The Economist print edition

Fidel Castro's apparent recovery points to a gradual transition in Cuba. That may suit the United States

Reuters

AS WITH Mark Twain's, reports of Fidel Castro's death turn out to have been an exaggeration. The first photos of the Cuban leader after what was officially said to be an operation for severe intestinal bleeding showed a pallid and tired figure, dressed not in the habitual olive-green uniform but in natty casual clothes. Soon came more pictures, and then television footage, of Mr Castro lying in bed, talking with his brother, Raúl, and Venezuela's president, Hugo Chávez, who dropped in on August 13th to celebrate his friend's 80th birthday.

So to the chagrin of Cubans in Miami, and to the relief of some, perhaps many, of those on the island, it seems that Mr Castro will be around for a few more months or even years. But he is clearly a sick man, and that raises many questions about Cuba's political future—questions that are being asked on both sides of the Florida Strait.

Before his operation, Mr Castro “temporarily” handed over his powers as president, as Communist Party first secretary and as commander-in-chief of the army to Raúl. But his brother is only five years his junior and has insisted that only the collective leadership of the party can succeed Fidel, who has assigned some of his day-to-day responsibilities to six other officials.

Raúl has certainly not rushed to grab the limelight. For almost a fortnight after the announcement of the handover he did not appear in public at all. When he did, it was to greet Mr Chávez at the airport. Significantly, he was accompanied by Carlos Lage, the de facto prime minister, who has been given the extra job of overseeing Fidel's pet project of overhauling Cuba's failing electricity system.

Mr Lage is liked by many Cubans and seen as a moderate. He helped save the economy from total collapse in the early 1990s by overseeing reforms, such as allowing the creation of farmers' markets and family businesses, and permitting the use of the American dollar. He is increasingly sent abroad to represent the government on diplomatic missions. An elegant figure in a dark suit, he presents a rather more modern face of Cuba's leadership than the uniformed Castro brothers.

It is not hard to imagine Raúl Castro and Mr Lage pushing Cuba towards a Chinese model of market

opening with continued one-party rule. But others may oppose this. The collective leadership also includes three veteran hardliners—and two influential younger men.

The youngest is Felipe Pérez Roque, the foreign minister, who spent seven years as Fidel Castro's personal assistant. Francisco Soberón, the unassuming president of the central bank, has helped to implement Fidel's decision to reverse many of the economic reforms, reining in the use of the dollar and family businesses. The two are leading figures in what Fidel has called “the battle of ideas”—his strenuous efforts to make sure that Cuban communism does not die with him. Also influential is Ricardo Alarcón, the president of the National Assembly, who is seen by some Cuba-watchers as a moderate.

Fidel Castro's original statement referred to his need for “several weeks of rest”. If he makes a full recovery, the collective leaders will presumably shrink back under his shadow. But it is likelier that a new period has begun in which Mr Castro remains the elder statesman while the leading group runs the country. “Revolutionaries never retire,” Fidel has often said. But they can be kicked upstairs.

Ordinary Cubans have remained calm through all this. During almost half a century of Fidel's iron control, they have learned the value of caution. Everything suggests a strong desire for change tempered only by fear of it. Almost three out of four Cubans cannot remember any other leader. That, and Mr Castro's apparent recovery so far, would seem to suggest that any change might be gradual.

Stifled cheers in Florida

Oddly enough, a gradual transition in Cuba may be welcome to the United States too—no matter what the Bush administration may say in public. The Americans have spent much of the past half century trying to overthrow or kill Mr Castro. When the news of his illness broke, it was greeted in south Florida, home to some 800,000 people of Cuban descent, with pot-banging and horn-honking. But the celebration was brief, and less exuberant than some had expected.

That is partly because the exile community is not what it was. “The passion is gone,” says Antonio Zamora, a veteran of the Bay of Pigs, the CIA's failed invasion of 1961. Most of the 20,000 immigrants from Cuba who arrive in the United States each year do so for economic, not political reasons. They do not plan to go back.

But American policy towards Cuba was long ago set in stone by pressure from the exiles. The trade embargo, first imposed in 1962, was tightened by the Helms-Burton Act of 1996, which threatens foreigners with lawsuits if they do business on the island involving property confiscated from Americans. It also precludes the president (but not Congress) from lifting the embargo while either Fidel or Raúl Castro remains in power.

George Bush, who owed his first term to his narrow win in Florida, has stepped up the propaganda war against the Cuban government. By restricting family visits, he reduced the flow of remittances—and curtailed communication between Florida and the island. In 2003, he set up a Cuba transition commission with an office at the State Department. Its purpose is to work for democracy and capitalism, and to thwart a communist succession. In a report last month, the commission called for $80m to be spent over the next two years on supporting “Cuban civil society” and breaking the regime's “information blockade”. This month, the administration stepped up broadcasts by TV Martí, which beams anti-Castro propaganda.

Some American officials have long forecast the rapid crumbling of the Cuban regime once Fidel is no longer in charge. That is what the harder-line Cuban-Americans yearn for. “They don't want a slow transition. They want chaos, and out of chaos they hope a democratic transition will come,” says an aide to a congressman from Florida. Some exiles talk of sailing to Cuba to help dissidents on the island mount a civil-disobedience campaign. “We are preparing our boats and planes,” says Ramón Saúl Sánchez, leader of the Democracy Movement, which has sent regular protest flotillas to the Cuban coast. The American authorities say they will block attempts to sail to Cuba.

For all its aggressive talk of a “free Cuba”, the administration's approach to Mr Castro's illness has been to await developments, notes Phil Peters of the Lexington Institute, a think-tank in Virginia. He argues that Cuba policy has subtly softened. Rather than actively seeking regime change, the emphasis now is on urging Cuban-Americans to unite and be patient. “I think people need to keep their emotions in check,” says Mel Martinez, a Cuban-American senator close to Mr Bush.

The president himself met Cuban-American leaders in Miami as news broke of Mr Castro's operation. He

said later that the exiles would have to wait for Cubans on the island to decide their form of government before they could “redress” the issue of property confiscated by Mr Castro's regime. This question divides Cubans from Cuban-Americans, who claim that their seized assets on the island were worth $9 billion. “No issue will be more fraught with difficulty and complexity,” says the transition report.

Though Helms-Burton mainly targets commercial property, many Cubans live in houses once owned by others. The report says the United States will not support any “arbitrary effort” to evict Cubans from their homes. Many, but not all, Cuban-Americans accept that they will not recover their property. But many will doubtless push for compensation.

What the Bush administration most fears is turmoil in Cuba that sparks a mass exodus. Stability may count for more than democracy—even if that means a smooth succession from Fidel to Raúl, though no one will say this in public. In a sign that it expects no immediate changes, the United States has tweaked its visa programme for Cubans, giving greater priority to family reunification and extending it to Cuban doctors working abroad.

Changes of leadership in opaque, authoritarian regimes are unpredictable—and in Cuba's case especially so given the length of Mr Castro's rule. Nobody can disagree that it is for Cubans to decide their own fate. The question now is whether they can do so freely, and in peace.

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Bolivia

Out of gas

Aug 17th 2006 | LA PAZ
From The Economist print edition

All's not well at the well-head

Get article background

ON MAY 1st Bolivia's socialist president, Evo Morales, nationalised his country's oil and gas industry with a bang. He sent troops to the gas fields, and put YPFB, a state company, in charge. On August 11th the government emitted what sounded like a whimper: the “full effect” of YPFB's takeover would be “temporarily suspended owing to lack of economic resources.” It needs a $180m loan from the central bank, currently prohibited by law. “It's a problem of cashflow, not the stopping of nationalisation,” says Pablo Solón, a Bolivian trade negotiator. Money is not the problem, retorts Carlos Miranda, a former energy minister. It is “not knowing the business or being able to control [it].”

What this means for the multinationals, including Brazil's Petrobras, Spain's Repsol YPF and Britain's BP, who have invested nearly $5 billion in Bolivia, is not wholly clear. Some analysts believe that moderates in the government, who want a deal, have been strengthened by an election last month for a Constituent Assembly, which is to rewrite the constitution. Mr Morales's party won, but less convincingly than he hoped.

AFP

An own goal from Morales

Others see simply confusion. “It's not clear who's making decisions and who is calling the shots on an operational level,” says Jed Bailey of Cambridge Energy Research Associates, a consultancy. Adding to the disarray are allegations of corruption against YPFB's president.

YPFB is now the legal owner of the gas at the well-head, and has taken over the stake in the production and pipeline companies formerly held on behalf of Bolivians by pension funds. But a 51% share remains with the foreign companies, which do not plan to sell cheaply. The nationalisation decree hiked royalties on the biggest gas fields to 82%, pending talks on new contracts. These were supposed to be completed by November 1st, but the government has yet to present any proposals. It is trying to extract higher prices for gas from its two main customers, Brazil and Argentina. Argentina has conceded an increase until December. Brazil has so far balked.

Mr Solón denies that the government will now seek a bail-out for YPFB from Hugo Chávez, Venezuela's president and an ally of Mr Morales. Besides, Venezuela's state oil firm, PDVSA, has little gas expertise to spare for YPFB. Meanwhile, more then 30 energy companies have stopped operating in Bolivia since May and investment has dried up, claims the Hydrocarbons Chamber, an industry group.

After leading protests that toppled two presidents, the football-mad Mr Morales won an election last December largely on the strength of his promise to take control of Bolivia's gas reserves, South America's second-largest. However noble Mr Morales's aim of creating a fairer country, his handling of gas suggests he has chosen the wrong means to achieve it.

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Venezuela

The opposition finds a leader

Aug 17th 2006 | CARACAS
From The Economist print edition

About time too

Get article background

IT HAS long been clear that Hugo Chávez would seek, and almost certainly win, another six years as Venezuela's president in an election in December. What was uncertain was whether he would face many opposition candidates or none. But the opposition, in a rare display of unity, has gathered behind the candidacy of Manuel Rosales, the governor of the western state of Zulia, whose capital is Maracaibo, Venezuela's second city. That amounts to a defeat for the radicals who wanted to boycott the election altogether.

The new man was a stalwart of the now discredited Democratic Action, the social-democratic party that dominated Venezuelan politics for four decades until Mr Chávez, a former army officer, was elected in 1998. But Mr Rosales is now the accepted standard-bearer of a wider opposition movement whose leaders include Julio Borges of the centre-right Justice First party (who has been promised the vice-presidency) and Teodoro Petkoff, a veteran democrat and newspaper editor.

Mr Rosales heads his own party, called A New Time. New wine in an old bottle, sneer Mr Chávez's supporters. The president kicked off his own campaign in true populist fashion, with a rally on August 12th at which he accused the opposition of being merely a front for the “imperialism” of George Bush. “They are the candidates of the extreme right and the counter-revolution,” he declaimed.

In December last year the opposition pulled out of a legislative election at the last minute, claiming the electoral authority was biased against it. Some, including the leadership of Democratic Action, favour a boycott this time, too. Support for that idea has receded for now.

The electoral authority has promised to curb Mr Chávez's hitherto blatant use of public resources for his campaign. That will be an uphill task, as his opening rally—carried live and in full by state television—made clear. The authority has so far declined to eliminate the fingerprinting machines thought by some to compromise the secrecy of the vote. But it has not entirely refused to scrutinise paper ballots, as *The Economist* reported incorrectly four weeks ago (“Damned whatever they do,” July 22nd, 2006). The authority says 55% of ballot boxes will be opened, although a recent ruling by the Supreme Court suggests that any discrepancy would be resolved in favour of the electronic result.

Another headache for Mr Rosales is the emergence of a maverick candidate, Benjamín Rausseo, who could steal votes from him. There are rumours that the government is funding this bawdy comic who calls himself the Count of Guácharo (a reference to a noisy bird from his home state in the east). Whether or not that is true, he almost perfectly matches the profile of the “outsider” some pollsters see as the ideal rival to Mr Chávez.

The opposition's disastrous performance in recent years has left a political vacuum where its leadership should be. Successive campaigns against Mr Chávez's “Bolivarian revolution” have seen the unions, business groups, the media and “civil society” sucked into this black hole. If Mr Rosales and his team succeed in restoring political parties to their rightful place, they will have done Venezuela a favour—whether or not they win in December.

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Peru

Google it in Quechua

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From The Economist print edition

More power for an ancient language

Get article background

HILARIA SUPA wears the ancestral clothing and round hat typical of peasant women from her village near Cusco, the former Inca capital in Peru. She also speaks Quechua, the language of the Inca Empire, which is still used widely in the Peruvian Andes. She claims that she has no real need for Spanish because her neighbours all speak Quechua. But that doesn't go for other members of Peru's Congress, to which Ms Supa was recently elected.

Along with a colleague, Ms Supa, who speaks fluent Spanish, has insisted on speaking to the legislature in her first language. This, she says, will increase respect for Andean Indian culture and help the language to survive. It has forced the Congress to hire translators.

Estimates of the prevalence of Quechua vary widely. In Peru, there are thought to be 3m to 4.5m speakers, with others in Bolivia and Ecuador. The language has long been in slow decline, chiefly because the children of migrants to the cities rarely speak it. But it is now getting a lot more attention.

In recent months, Google has launched a version of its search engine in Quechua while Microsoft unveiled Quechua translations of Windows and Office. Demetrio Túpac Yupanqui, who last year translated “Don Quijote” into Quechua, recalls that a nationalist military government in the 1960s ordered that the language be taught in all public schools. It didn't happen, because of lack of money to train teachers. By law its official use—and bilingual education—is now limited to highland areas where it is predominant.

This month Peru's new president, Alan García, signed a law making discrimination on the basis of language a criminal offence. Applying this will be hard: a recent poll found that two-thirds of respondents believe the country to be racist. Some may argue that Peruvians should be concentrating on learning English—the government has signed a free-trade agreement with the United States. But Peru will only become a harmonious democracy when it recognises and overcomes its ethnic inequalities. Ms Supa is engaging in gesture politics—but she may have a point.

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Sri Lanka at war

Beyond euphemism

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From The Economist print edition

Reuters

As in Lebanon, war in Sri Lanka brings humanitarian disaster

Get article background

IT IS no longer a ceasefire riddled with violations; no longer a “low-intensity conflict”. Sri Lanka is at war in all but name, and it is hard not to believe that is what the contending armies have long intended. For 23 years the Sri Lankan government has been fighting the Liberation Tigers of Tamil Eelam, to thwart their ambition for an independent homeland, or “Eelam”, for the island's Tamil minority in the north and east. The lull brought by a 2002 ceasefire has now ended, in what the local press is calling “Eelam War IV”.

Around 1,000 soldiers and civilians have been killed, and 135,000 people, mostly from the Muslim and Tamil minorities, displaced by fighting in the north-east since April. In the south, Colombo has this month seen two bomb blasts, killing ten people. Fearing more, the government has shut all schools. One blast was allegedly a bid to kill Pakistan's high commissioner. It was blamed on the Tigers, provoked by Pakistan selling arms to the government.

Both the government and the Tigers say they are on “humanitarian missions” to safeguard their people from the other side. This claim rang particularly hollow after August 14th, when the jets of the Sri Lankan air force bombed an orphanage run by the Tigers in Mullaitivu district, allegedly killing 61 children. The government argued it was not an orphanage but a training camp for young Tiger fighters. A government spokesman, Keheliya Rambukwella, said that even if those killed were minors, “they are soldiers who are prepared to kill.”

Both sides are gung-ho, each believing they can win this latest fight. The army spokesman, Athula Jayawardene, said it wanted the Tigers to attack. “That way we can kill more.” Rasaiah Ilanthirayan, who speaks for the Tigers' military, said “the noise of bombs is like a lullaby for us.”

The government's aggression is partly prompted by its perception that the Tigers have been critically weakened in the multi-ethnic east of the country, since the rebellion in 2004 of their commander there, known as Karuna. It hopes to separate the eastern part of the Tigers' claimed “Eelam” from the Tamil-

dominated north, by driving the Tigers out of Trincomalee district, which lies in between. The government also needs the harbour and naval base at Trincomalee. Since the Tigers broke air links by shelling the airfield at Palaly, this is the only lifeline to government-held Jaffna in the north. Supplying the 40,000 soldiers in Jaffna is a logistical nightmare.

The latest round of fighting started as a spat over the waters of a small river in the eastern district of Trincomalee. On July 20th, the Tigers closed the sluice gates of a dam, depriving thousands of families, mostly from the ethnic Sinhalese majority, of irrigation and drinking water. In response, the government launched an air, sea and land operation to capture the dam. Areas as far north as Kilinochchi and Mullaitivu, and as far south as Batticaloa were bombed from the air, to prevent Tiger reinforcements reaching the area, and to cripple their fledgling air force.

With pressure mounting on them, the Tigers opened new fronts. Besides bombarding Palaly, they took over Muttur town, facing Trincomalee harbour, shelled the harbour, and launched an attack on Muhamalai, the gateway to Jaffna, and amphibious assaults on islands off the coast of Jaffna. They aim to bolster their hold on the east, stop the rupture of the land link between their northern and eastern areas, and make Trincomalee harbour unusable.

Efforts by foreign countries to coax the rivals to return to peace talks have been fruitless. Norway, the mediator that arranged the 2002 Ceasefire Agreement (CFA), has failed to persuade them to resume talks about its implementation. This month, Yasushi Akashi, a special envoy from Japan, had to cancel a planned peace mission to Sri Lanka when Velupillai Prabhakaran, the Tigers' elusive and ruthless supremo, refused to meet him.

One of the last vestiges of the CFA is a monitoring mission, provided by Nordic countries. Its job has become almost impossible, with neither side co-operating. Worse, after the European Union in June banned the Tigers as a terrorist group, the Tigers demanded the withdrawal of all EU monitors—37 of the 57-strong mission—by September 1st. Norway is struggling to find replacements, and the Sri Lankan government is peeved, saying that, under the CFA, it should be a party to any decision on the monitors.

Both Tigers and the government have suggested they will talk. But the best hope for ending the war lies in the difficulty of supplying troops. A fight, if not to the finish, then at least to the death of many.

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India's Naxalites

A spectre haunting India

Aug 17th 2006 | DANTEWADA DISTRICT, CHHATTISGARH
From The Economist print edition

Maoist rebels are fighting a brutal low-level war with the Indian state

Get article background

GANESH UEIKE, secretary of the West Bastar Divisional Committee of the Communist Party of India (Maoist), seems a gentle, rather academic, man, who does not suit his green combat fatigues or clenched-fist “red salute”. He shuffles dog-eared bits of paper from a shabby file in his knapsack and writes down the questions he is asked. He answers them in slogans that he gives every appearance of believing. He wants to “liberate India from the clutches of feudalism and imperialism”.

AP

A band of merry Naxalites

The rare interview took place last month, in a thatched shelter in a clearing in the Bastar forest in southern Chhattisgarh. The spot was some seven hours' walk from the nearest road, and there had been a day-and-a-half's wait for such a “big leader” to emerge from a hideout even deeper in the jungle. His party, he said, was facing renewed suppression, because “the resources of finance capitalism are facing sluggishness in their development, and are looking for new routes,” such as the mineral riches of this forest.

Mr Ueike did not mention that, just a few hours beforehand, at the edge of the forest, in a place called Errabore, his comrades had fought back. Several hundred had mounted a co-ordinated attack on a police station, a paramilitary base and a relief camp for displaced people. They killed more than 30 of the camp's residents, mostly by hacking them to death with axes. The scholarly Mr Ueike did boast that his army relied on “low-tech weapons”.

This was the latest battle in a year-long civil war in Dantewada district, in which more than 350 people have been killed, and nearly 50,000 moved into camps such as the one at Errabore. It is a remote, sparsely populated, under-developed region bordering three neighbouring states, and nine hours' drive from Chhattisgarh's capital, Raipur (see map). It is here that India's widespread Maoist rebellion is most intense.

On August 15th, in his National Day speech in Delhi, India's prime minister, Manmohan Singh, linked Naxalism with terrorism as the two big threats to India's internal security. The terrorism is all too familiar. India's cities have endured repeated atrocities—culminating in July's bomb attacks in Mumbai, which killed nearly 200 people. But many are surprised that Mr Singh accords Naxalism such a high priority. A primitive peasant rebellion based on an outmoded ideology is out of keeping with the modern India of soaring growth, Bollywood dreams and call-centres. Moreover, India has fought many better-known wars. A violent insurgency in Indian-administered Kashmir has claimed tens of thousands of lives. Its north-eastern states are wracked by dozens of secessionist movements.

But Mr Singh may be right about the Maoists. Known as “Naxalites”, after the district of Naxalbari in West Bengal where they staged an uprising in 1967, they are these days almost a nationwide force. Greeted by China's *People's Daily* at the height of the Cultural Revolution as “a peal of spring thunder”, they were almost wiped out in the 1970s, as the Indian government repressed them, and Maoism went out of fashion, even in its homeland.

In India they splintered into various armed factions, of which the biggest were the People's War Group and the Maoist Communist Centre. These merged and formed the CPI (Maoist) party in September 2004. P.V. Ramana, of the Observer Research Foundation in Delhi, estimates the Naxalites now have 9,000-10,000 armed fighters, with access to about 6,500 firearms. There are perhaps a further 40,000 full-time

cadres.

In nearly 1,600 violent incidents involving Naxalites last year, 669 people died. There have been spectacular attacks across a big area: a train hold-up last month involving 250 armed fighters, a jailbreak freeing 350 prisoners, a near-miss assassination attempt in 2004 against a leading politician. “Naxalism” now affects some 170 of India's 602 districts—a “red corridor” down a swathe of central India from the border with Nepal in the north to Karnataka in the south and covering more than a quarter of India's land mass.

This statistic overstates Naxalite power, since in most places they are an underground, hit-and-run force. But in the Bastar forest they are well-entrenched, controlling a large chunk of territory and staging operations across state borders into Andhra Pradesh and Orissa. In the tiny, dirt-poor villages scattered through the forest, the Indian state is almost invisible.

In one there is a hand-pump installed by the local government, but the well is dry. There are no roads, waterpipes, electricity or telephone lines. In another village a teacher does come, but, in the absence of a school, holds classes outdoors. Policemen, health workers and officials are never seen. The vacuum is filled by Naxalite committees, running village affairs and providing logistic support to the fighters camping in the forest. For the past year, those fighters—mostly local tribal people—have been battling not just the police and the six paramilitary battalions deployed in the district, but their own neighbours.

Not a dinner party

The single spark that lit this prairie fire was the formation a year ago of Salwa Judum, an anti-Maoist movement, whose name in Gondi, the language spoken by local tribes, means something like “peace hunt”. Its origins are disputed. K.R. Pisda, the district collector, or senior official, in Dantewada, dates it to a meeting in June 2005 of local villagers fed up with Naxalite intimidation and extortion. Others say that the Maoists were enforcing a boycott of trade in one of the main local forest products: tendu patta, the leaves used to wrap bidis (hand-rolled cigarettes).

Similar boycotts in the past had succeeded in forcing up prices and had earned the Naxalites some kudos. This one, the story goes, backfired. If it ever was a spontaneous movement, Salwa Judum soon became an arm of government policy—and a paramilitary force. Some 5,000 of its members have been inducted as “special police officers” (SPOs) and given some training and arms.

As the local government tells it, thousands of people started turning up by the roadside, fleeing Naxalite reprisals. There was no choice but to house them in relief camps, of which there are now 17. This is a dirty little war in which truth was long ago a casualty. Salwa Judum itself is also responsible for displacing people—a “scorched village” policy intended to starve the Maoists of local support. This recognises that the Naxalites' real strength lies not in their guerrillas in the jungle, with their peaked caps and “country-made” rifles, but in their civilian networks in the villages themselves.

In the largest camp, at Dornapal, some 17,000 people are housed in huts of mud and corrugated iron. Health workers say that many of the children are malnourished. One man, Wenjam, says he took refuge here after Naxalites in his local village beat him, and threatened him with worse, because he had a government contract to fence the pond. He had a pukka house, he said, and a herd of cattle. But, after five months in the camp, he had not been back to the village.

Armed police do sometimes escort groups home for a visit. Mr Ueike says there are no “ordinary people” in the camps, only “SPO people and their families”, whom he dismisses as “village feudal families and some lumpen elements”.

Yet some of those displaced are openly critical of Salwa Judum, which they say forced them to leave their villages. They are caught between two vicious enemies. In some villages, residents fled into the forest rather than follow the drive to the roadside. The camps are very controversial. Even K.P.S. Gill, a retired policeman known as a “supercop” for his vigorous role in putting down various insurgencies, and now an adviser to the Chhattisgarh government on dealing with the Maoists, says it would have been better to protect people in their villages.

When the Chhattisgarh government's home minister, Ramvichar Netam, visited Errabore the day after the massacre, he was surrounded by angry survivors. They pelted his helicopter with stones. Some of the bereaved even refused the money he was handing out as compensation. The Salwa Judum campaign,

however, has important backers. Raman Singh, Chhattisgarh's chief minister, calls it “a success story”, a “non-violent movement against exploitation”.

The same tune is sung by the leader of the opposition in the state, Mahendra Karma of the Congress party, who is, in effect, Salwa Judum's leading light. A native of Dantewada itself, Mr Karma, like Mr Singh, sits under a portrait of Mahatma Gandhi and stresses the movement's “peaceful” origins. But he also links it to the global fight against terrorism and asks: “Are we not supposed to protect ourselves in our homeland?” Even the central government seemed at one time to endorse the campaign. In a statement in March the home ministry promised to “promote local resistance groups” against Naxalites.

Now, however, V.K. Duggal, the home ministry's top civil servant, who, like state officials, calls Salwa Judum “spontaneous”, says that at a meeting last week the central government advised the Chhattisgarh government not to extend the movement to other areas. Delhi is offering assistance: an extra paramilitary battalion; armoured vehicles; minesweeping equipment; and imaging technology to help locate remote Naxalite camps. It draws the line at helicopters for offensive operations. Its emphasis is on persuading the Maoists to join mainstream politics. In his speech this week, the prime minister said he wanted Naxalites to understand that “real power flows from the ballot box”.

Mr Karma and local officials in Dantewada make much of the Maoists' inhumanity. He says they load the corpses of their victims with mines, so those retrieving the bodies are also killed. Om Prakash Pal, the police superintendent at Dornapal, displays a gruesome photo album of mutilated bodies. Even Mr Gill, who has seen more brutality than most, thinks the Maoists stand out in this respect: “Their ideology is that the manner of killing should frighten more than the killing itself.”

Salwa Judum, too, is accused of intimidation, extortion, rape and murder. Its thugs have been manning roadblocks, supposedly to hunt for Maoists, but also to demand money. Some SPOs—like some Naxalites—may be local hoodlums, who have signed up for the money on offer, and the shiny new bicycles and motorbikes still wrapped in plastic at the Dornapal police station. Some families refusing to join Salwa Judum on its “combing” operations—rampages of arson, thuggery and pillage—have been “fined” or beaten. A report on Salwa Judum produced in April by a number of civil-liberties groups concluded that its formation had “escalated violence on all sides...Salwa Judum and the paramilitary operate with complete impunity. The rule of law has completely broken down.”

The barrel of a gun

For local officials in Dantewada, and the state government in Raipur, the Naxalites are just bandits: extortionists who hold sway through terror alone. Their ideology, they say, long ago imploded in a welter of violence. There is little doubt that they do use terror and extortion. Himanshu Kumar, who runs aid projects in the district, says he used to respect the Naxalites as working “for the betterment of the masses”. But he now found “people supporting them out of fear of their guns, or to gain power to loot others.”

Most of their young recruits—illiterate tribal people—have never read Mao. But not all support is coerced or opportunistic. And those who have studied the Naxalites credit them with far greater organisation, discipline and ideological fervour than any criminal gang. Ajai Sahni, for example, of the Institute of Conflict Management, a Delhi think-tank, points to the detailed socio-economic surveys they conduct before starting operations in a target area, helping to identify grievances they can exploit.

He also says that the Naxalites have been among the most principled of terrorist groups in selecting their targets. Their attacks are not random; though, because they so often use crude landmines, they may kill the wrong people. Their leaders are thinking far into the future, taking a 20- to 25-year view of their struggle. “Liberated” areas, such as their part of Dantewada, would be expanded until they pose a threat even to India's cities.

Nepal's Maoists, with whom the Indian party has “fraternal” links, are a model of how such a strategy can work. Having managed to exclude the state from virtually all the countryside, and waged war for a decade, the Maoists in Nepal are now negotiating, from a position of some strength, their share in government—a decision their Indian comrades quietly deplore, despite a pretence of solidarity.

Early Naxalite leaders like Mr Ueike, who has spent nearly 30 years in the movement, were students and middle-class intellectuals. But the tribal peoples among whom they find most of their new recruits are among India's poorest: “the most exploited, the bottom rung”, according to Ajit Jogi, a tribal leader and

former chief minister of Chhattisgarh. Typically, they live in forests and have no rights to their land. A law to remedy this is under consideration, but resisted by conservationists. According to the 2001 census, about three-quarters of Dantewada's 1,220 villages are almost wholly tribal; 1,161 have no medical facilities; 214 have no primary school; the literacy rate is 29% for men and 14% for women.

Most of the inhabitants are subsistence farmers eking a meagre cash income from selling forest products, such as tendu patta. Markets in the forest have been closed, to throttle the Maoists' supply chain. For many inside the forest, a visit to the market is now a long hike, camping overnight on the way. A big iron mine, Bailadilla, on the edge of the forest, employs few local people and in the rainy season turns a river bright orange and undrinkable. A railway has been built to take the ore to the sea.

The government blames the Maoists for blocking development, such as road-building. But the Maoists tell people that roads are intended simply to help the state plunder the forests and take wealth out, not bring it in. Many believe them. The Maoists profit from what Mr Sahni calls “asymmetric expectations”: people expect the state to provide for them, and it is failing; any good coming from the Maoists—social work, land redistribution, a price rise for local produce—brings disproportionate gratitude.

Contradictions among the people

To bring development to these neglected reaches, the government needs to assert control. Salwa Judum is the wrong way to go about it. A larger, better-trained police force would help. In India, on average, there are 55 policemen for every 100 square kilometres; in Chhattisgarh just 17. In districts such as Dantewada, policing is an unattractive, life-threatening career. Mr Pal, the Dornapal policeman, is a young and competent-seeming officer from the state of Uttar Pradesh. But he has been criticised in the press for lacking experience.

Some 2,000 policemen have attended a Counter-Terrorism and Jungle Warfare Training School, which opened a year ago at Kanker, on the road from Raipur. The director, B.K. Ponwar, a retired army brigadier, wants to teach policemen “to fight a guerrilla like a guerrilla”. They learn to slither down ropes, as from a helicopter, practise peppering a range with live bullets, run fierce obstacle courses and study survival skills, such as “jungle cooking” (“First, catch your cobra...”).

Eradicating Naxalism, however, is more than a local policing problem. One difficulty has been that, under India's constitution, security is a matter for state governments rather than the centre. So national policy for dealing with the Naxalites has been inconsistent. In 2004, the government of Andhra Pradesh held abortive peace talks with local Naxalites, while other states continued to fight them.

AP

A policeman's unhappy lot

Mr Ueike talks boldly of expanding Naxalite influence into new areas: Kashmir, the north-east, and India's cities. The spread of Naxalism is causing justifiable alarm. Just as Mao Zedong mounted the Gate of Heavenly Peace in Beijing in 1949 to tell the Chinese people they had stood up, Mr Ueike dreams of seeing the red flag fly over the Red Fort in Delhi in his lifetime.

It will not happen. For all their geographical reach, the Maoists' power base remains on the margins of Indian society. They are far from sparking a general insurrection. But, in places such as Dantewada, almost a hole in the map of the Indian polity, it is easy to see how a crude, violent ideology, promising land and liberation, might take root. Mr Singh had a point when in April he said the Naxalites posed “the single biggest internal-security challenge ever faced by our country”.

Other terrorists attack the Indian state at its strong points—its secularism, its inclusiveness, its democracy. Naxalism attacks where it is weakest: in delivering basic government services to those who need them most. The Naxalites do not threaten the government in Delhi, but they do have the power to deter investment and development in some of India's poorest regions, which also happen to be among the richest in some vital resources—notably iron and coal. So their movement itself has the effect of sharpening inequity, which many see as the biggest danger facing India in the next few years, and which is the Naxalites' recruiting sergeant.

Brigadier Ponwar, who joined the Indian army as it went to war in Bangladesh in 1971, says he spent the rest of his career fighting terrorists at home. After fighting low-intensity wars on its periphery for a generation, India risks having to endure another, in its very core, for the next.

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After the ceasefire

Divided Lebanon

Aug 17th 2006 | BEIRUT
From The Economist print edition

Getty Images

“Victory” for Hizbullah is not quite the same as victory for Lebanon, whatever its divided politicians feel they have to say

“DIVINE Victory—No Trespassing.” So says the message, in English and Arabic, printed on the yellow crime-scene tape that cordons off bomb sites in Haret Hreik, the Beirut suburb that is Hizbullah's firmest stronghold. The speed with which the Shia party, emerging bruised but triumphant in spirit after a month-long war, produced its own jaunty tape for this particular purpose says much about its efficiency. As the shaky ceasefire that started on August 14th took hold, party workers stole a march on the Lebanese government, fanning out across the country to give away victory sweets, clear debris, pull bodies from the rubble, and process claims for compensation from the estimated 15,000 householders who lost their homes to Israel's bombing.

Impressive in peace as in war, Hizbullah's tenacity carries heavy costs, however. The main one is that it is preventing the government of Lebanon from implementing the terms of United Nations Security Council Resolution 1701, which it gratefully accepted in order to bring the fighting to an end. The core of this resolution is that Hizbullah should no longer operate as a military force in southern Lebanon, of which it was undisputed master before the war erupted. In its place, under the resolution and in the imagination at least of Fouad Siniora, Lebanon's prime minister, the official Lebanese army is supposed now to hold sway—assisted by a new international force that will give some bite to the toothless UNIFIL force that has been deployed ineffectually in the south for years (see article).

As a part of the government, Hizbullah too has notionally accepted 1701. But now that the guns are silent and it has declared itself the victor, the organisation is in no hurry to implement its part of the deal. Hassan Nasrallah, the leader who evaded Israel's bombs for a month, is riding high on a region-wide wave of enthusiasm. In a typically soft-spoken but caustic television address, he called his Lebanese critics “immoral” in their haste to see Hizbullah defanged. “At this emotionally difficult and fateful time, some individuals speaking with wooden tongues sit behind desks in their air-conditioned offices and talk about these issues,” he said. One could virtually feel Lebanon's other politicians and grandees, none of whom now rivals him in popular standing, squirm.

If Mr Nasrallah refuses to disarm, even in the south, who can make him? He has the support of Iran, his chief armourer, which denounced 1701 as “a Zionist document”. He also has the support of Syria. Its

president, Bashar Assad, made this clear in a speech celebrating Hizbullah's “victory”. Those Lebanese who were demanding that the group lay down its arms were “Israeli creations” who wished to provoke civil war, he said in a fire-breathing peroration. The ramshackle Lebanese army is no match for Hizbullah, and the parts of the army recruited from the Shias of south Lebanon would probably refuse to fire on Hizbullah even if they were ordered to. The new international force may have robust rules of engagement, but it will not try to finish Israel's job for it.

That leaves Israel. Since the fighting ended, it has withdrawn many of its soldiers from Lebanon. But many remain—and may stay on for months, according to Israel's top general, if Lebanon's government fails to disarm Hizbullah or assert its authority in the south. Israel may also keep up the air and sea blockade that has throttled Lebanon's import-dependent economy. However, beyond its strenuous insistence that the Lebanese government has a duty to honour the agreement it signed, Israel does not seem eager to resume the war. For the present, its soldiers and Hizbullah's remain edgily intermingled in the south. There have been some lethal skirmishes. But neither army seems to relish another round just yet.

The man who is in the toughest predicament of all is Mr Siniora. Lebanon's prime minister is in a fix. Lebanese patriotism obliges him to celebrate Mr Nasrallah's great victory. But most of the coalition government over which he presides wants to seize the opportunity, enshrined in 1701 (and made possible by Israel's deplorable bombs), to turn Lebanon into a normal country, not one in which Iran and Syria maintain the Hizbullah fief. Behind the victory talk, many non-Shia Lebanese are appalled by the cost to Lebanon of Mr Nasrallah's war. They would love to use 1701 as a tool to strip Hizbullah of its arms and power.

Which is precisely why Mr Nasrallah is unlikely to oblige. In the eyes of many Shias, who were until recently Lebanon's most downtrodden sect, military strength is a guarantor of influence against the historically dominant and wealthier Christians and Sunni Muslims. Hizbullah's own leaders hold an even more paranoid worldview, regarding their fighting strength as a buffer that protects not just Lebanese Shias, but Arabs and Muslims at large, from American hegemony.

On paper, Mr Siniora's coalition of Sunni, Druze and right-wing Christian parties commands a strong parliamentary majority. His government, a product of the “cedar revolution” that resulted last year in the eviction of Syria's army and looked set to recapture Lebanon for the West, enjoys the backing of the oil-rich Arab Gulf states, the United States and Lebanon's former colonial master, France. Yet its street-level power is hardly a match for Hizbullah's. Though pro-government businessmen have pledged to pay for rebuilding bridges across the country, their efforts are likely to be eclipsed by the door-to-door thoroughness of Hizbullah charities, augmented by the deep pockets of Iran.

At best, it seems, Mr Nasrallah will allow the Lebanese army to deploy to the south, aided later perhaps by the new international force. But his consent will be based on an agreement to conceal Hizbullah's weapons, not actually to remove or hand them over. He will pretend to comply with 1701, and the world may pretend to believe him. This fictitious construct may give Israel the cover it needs to withdraw its own army. But all the conditions will exist for a resumption of the war.

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The UN and Lebanon

Robustly complicated

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Rounding up a posse of peacekeepers will be hard

Get article background

WHAT does it mean to “assist” the Lebanese government both in establishing its own authority in southern Lebanon and eventually in disarming the militias (chiefly Hizbullah) that operate there, and in the meantime to “take all necessary action” to prevent hostile acts “of any kind” in the area and to protect civilians under “imminent threat”? As *The Economist* went to press, more than 40 nations were assembling in New York to work out how to add military muscle and effective rules of engagement for the blue-helmet force the United Nations Security Council willed last week into Lebanon with Resolution 1701. If only it were just that simple.

Interposing a 15,000-strong UN force, alongside a similar number of Lebanese government troops that started moving south on August 17th, in the 20km-wide (12-mile) belt of Lebanon that abuts Israel's northern border, will, it is hoped, create the space for political talks on a more permanent ceasefire. The existing 1,900-strong UN observer force in Lebanon, UNIFIL, can move quickly into the small pockets of Lebanese territory that Israeli forces were already vacating this week. But a week or so from now, the UN badly needs some 3,500 troops to be taking up positions in bigger swathes of territory if Israel's withdrawal is not to stall. Until Israel pulls its forces back, Hizbullah insists they are fair game. But where will the new UN troops come from?

France has indicated it could lead the force in, and provide its core (the old UNIFIL is already under French command). A few others—Italy, Spain, Turkey possibly—have troops that can be deployed in days rather than months. If these agree to go in quickly, others may be readier to follow later. The UN therefore envisages a rolling deployment. Most needed in the vanguard will be mechanised battalions, troops with wheels and rotors to get themselves around shelled roads, able to assemble bridges and deal with unexploded weapons, mines and improvised devices originally set to slow Israel's advance.

A staggered deployment is as much a political as a practical necessity. Until they can assess how robust the new UNIFIL's rules of engagement are (the observer force, with troops from India, Ghana, Europe and China, has been limited to self-defence, encumbered by maximum self-restraint, and been shot at by both Israel and Hizbullah), few countries have been ready to make firm commitments.

Turkey, emphatic about not being placed in the position of having to shoot at fellow Muslims (no one mentions Israelis), would be keen to attract more Muslim contributors; Indonesia and Malaysia have both offered, although Israeli officials are mulling over whether they might oppose troop contingents from governments that do not recognise Israel, and neither does. Egypt, Jordan and Morocco are expected to volunteer. But Syria, along with Iran, seems bent instead on rearming Hizbullah, whose missile stocks were depleted in the past weeks' fighting.

The fragility of the truce makes many nervous. It is unclear whether the UN will reach its eventual 15,000 target, and whether enough of a peace can be restored to prevent the countries now lining up to sidle carefully into Lebanon from backing out again. If the truce holds, for some European governments a deployment to Lebanon would mark their first experience of blue-helmeted soldiering since their bad experiences in the Balkans, during the Bosnia war. Germany's decision this week to make “a contribution” to the new force shatters a post-Holocaust taboo against military involvement in the Middle East.

The Europeans would find a lot has changed since the Bosnia days, say senior officials in the UN's Department of Peacekeeping Operations. Rules of engagement have toughened a lot. France, for its part,

seems to have concluded that, although last week's UN resolution was not passed under Chapter 7 of the charter (the toughest option available), it, at least, has a sufficiently robust mandate to work with. How it will use it to help the Lebanese government restore its control in the south remains to be seen. But it will have the authority to respond if attacked, or thwarted, or to protect civilians under threat.

The need for speed means that UN officials are being pulled from other missions to get the expanded Lebanon one up and running. Some troops and police earmarked for other missions, such as the NATO operation in Afghanistan or the African Union-led force in Darfur, in Sudan, will likely now be diverted.

Will it be worth it? Not if the UN force can only hold the ring while Israel and Hizbullah gear up for another round. And not if this more “robust” UN force in Lebanon comes to seem like an occupying force. A fine line for the blue helmets to tread.

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Israel

The blame game

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Unity certainly ended when the fighting died

AFP

AFTER a month of fighting that cost it 116 soldiers and 43 civilian lives, Israel has little to show for it. Although it has destroyed a lot of Hizbullah's long-range missiles and killed a claimed 530 of its fighters, Israel has not obviously weakened Hizbullah, nor beaten it back to the Litani River, nor got back the two soldiers whose capture started it all. Few Israelis believe the Lebanese army and an expanded UN force will keep Hizbullah out of the south, much less disarm it or block its weapons supply from Syria. Although most Israelis still think they were right to go to war, many fear that sooner or later there will have to be another round.

No sooner had the ceasefire taken effect than the patriotic fog of war was cleared by a cold blast of recriminations. Returning troops—in particular reservists, who unlike young active-duty conscripts have few compunctions about mouthing off—are griping about poor preparation, substandard equipment, missing supplies, constantly-changing orders given with too little notice. As for those left in Lebanon, a decision to make a last-ditch push for the Litani in the two days before the ceasefire took effect means some units are dangerously spread out, forbidden to move or fire unless threatened, and thus sitting ducks if Hizbullah decides to attack them.

And everybody is blaming everybody else. The general in charge of the campaign, Udi Adam, blamed the politicians for holding back the army for several days and then ordering the final push. The prime minister's office says the defence minister, Amir Peretz, and the army were the ones who insisted on it. Eitan Cabel, a legislator close to Mr Peretz, accuses the chief of staff, Dan Halutz, of creating expectations that the air force alone could destroy Hizbullah in the beginning. Other generals think that he should have ordered a call-up of reserves right away.

A former senior officer criticises General Halutz as having the narrow tactical mentality of the pilot he once was. General Halutz impugned General Adam by naming another general to oversee him late in the campaign. Analysts complain that military intelligence knew too little of Hizbullah's weapons and bunkers. Army types condemn ministers for cutting the defence budget. Reuven Pedatzur, a commentator on defence issues, excoriates the generals for misusing a budget that actually grew from 2002 to 2005. Current ministers snipe at former ministers for not spending enough money on shelters and emergency supplies in the north. Local politicians in the north censure the government for not helping out more while the residents accuse local officials of abandoning them.

One clear failure was the inability to understand how the Lebanese would feel about being attacked. Current and former army officers say that there was a hope that the first few days of air strikes would focus domestic anger on Hizbullah and force it to back down. Instead, the anger was focused on Israel, which responded by ratcheting up its campaign step by step.

But an even more basic mistake may have been to mismanage expectations. “Nobody thought the army would stop the rocket fire,” says Yaron Shavit, a reserve tank colonel who was called up to the war. “It was supposed to create a situation that would allow the politicians to reach a political deal. But it wasn't understood how to explain this to the public.”

Similarly, Dov Tamari, a former head of the army's theoretical-research institute, argues that since their massive victory over three Arab armies in 1967, Israelis have been seduced by the belief that fighting a war can eliminate a threat. Instead, he says, they should be prepared for a “continuum of wars” until the politicians—on both sides—are ready for peace talks. The war's silver lining, he thinks, could be its political impact on Lebanon. Though not defeated, Hizbullah will be wary of provoking another attack. Hassan Nasrallah, its leader, has new-found responsibilities and Fouad Siniora, Lebanon's prime minister, has a new-found stature in the fragile system of governance. “That is the war's positive effect, though maybe it was not the intended one, nor even the one being presented,” Mr Tamari says.

The political impact on Israel, however, is to provoke a sense of political drift. Ehud Olmert, the prime minister, was elected on his plan to remove some Israeli settlements from the West Bank; but after Lebanon (and Gaza, where weeks of military operations have killed 200 Palestinians but failed either to release a kidnapped soldier or to stop the firing of rockets into Israel), he is seen as unable to guarantee Israel's security if he does. Yet his party, Kadima, is a fragile, recent creation with no ideology besides the plan. And with the fighting over, criminal investigations into two Kadima ministers have shot back into the headlines.

The left, on the other hand, is in tatters. Mr Peretz, leader of the Labour party, Kadima's coalition partner, now looks foolish to have accepted the defence portfolio; he has quickly been typecast as a puppet of the army. Opinion polls show him drawing even more blame for the shortcomings of the conduct of the war than Mr Olmert. The more left-wing Meretz party split over the war and could collapse altogether. On the right, Binyamin Netanyahu, leader of Likud, might make a comeback. But after Lebanon and Gaza, his alternative to Mr Olmert's plan, which is to hold on to the West Bank and be tougher on Palestinian militants, does not look much more attractive. Pundits expect an early election; but if there is one, nobody now looks like a clear winner.

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Israel's north

Rockets fell on the new Tuscany

Aug 17th 2006 | DALTON, KIBBUTZ BARAM AND QIRYAT SHEMONA
From The Economist print edition

Peeping out after the war

WHEN they went to work their fields, the residents of Kibbutz Baram used to see Hizbullah's yellow flags fluttering yards away on the other side of the border fence. When Israeli troops took their first Hizbullah stronghold, the village of Maroun al-Ras, Baram heard the shouting and the popping of small-arms fire echo across the valley. And when the ceasefire took hold, at eight in the sunny morning of August 14th, the quiet pounding of Israel's heavy guns suddenly ceased rolling in from Lebanon.

It is no surprise that Baram's residents feel the war has made them safer. "At least we don't have the people sitting on the border, the fear of snipers and infiltrations," says Danny Barot, the kibbutz secretary. The kibbutzim, strong-knit, self-sufficient and prepared for crises, have weathered the war well, says Chaim Milo, the treasurer of the Upper Galilee regional council, which is responsible for 29 of the collective farms.

AFP

Incoming

But people from bigger towns in northern Israel will be counting the cost of the war for a while, and not just in terms of the 43 civilians killed. Qiryat Shemona, a town of 22,000 inhabitants, took 370 rockets in its built-up area, a tenth of all those that fell on Israel; the town council says that over 2,000 apartments suffered damage. Among the million-odd Israelis within range of the rockets, townsfolk were likelier than kibbutzniks to flee for the south; those that stayed, often the poor and elderly, found that the air-raid shelters in which they spent hours or days cooped up had been left to run to seed.

And though the destruction is nothing like that which Israel wreaked on Lebanon, the effect on the economy will be far-reaching. The north lives off the tourists who come in droves to hilltop getaways, spa resorts, vineyards and farms. Some 10-15% of businesses in the north could not meet their August wage bill. Moshe Haviv, the general manager of the Dalton winery near Safed, some of whose grapes were given an unwanted early pressing by Katyusha rockets, saw his visitor centre closed for a month during what is normally the busiest season. The ceasefire came just two days before the grape harvest began.

Mr Haviv is an incorrigible optimist; but given the scepticism on the Israeli side about what the war achieved, and the fears that it could well restart, it will take a big show of confidence from both Israeli and foreign tourists to put the region back on track to becoming, as he envisions it, a "Galilean Tuscany". As it is, Israel's GDP growth for 2006 is expected to fall from 6% to 4.5%; but if the peacekeeping deal in Lebanon looks shaky, the north may never recover fully. "What frightens me most is an unresolved situation with a dribble of attacks," says Mr Milo. "For years, while the *intifada* and the Gaza disengagement went on, we felt like the safest place in the country but now, the first time the deal breaks, people in Qiryat Shemona and Nahariya will pack up, and move to Tel Aviv."

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Ethiopia

A general defects

Aug 17th 2006 | AXUM
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A further blow for a beleaguered leader

ETHIOPIA'S prime minister, Meles Zenawi, now spends most of his time heading off his enemies. In the capital, Addis Ababa, the government's response to its defeat in last year's contested general election was to shoot scores of opposition protesters and imprison the city's elected mayor. This led to the suspension of aid from his previously loyal Western backers.

To the south, in the Ogaden desert, he has been fighting with the Ogaden National Liberation Front (ONLF), a rebel group that seeks autonomy for south-eastern Ethiopia. On August 11th Ethiopia reported having shot dead 13 ONLF fighters slipping across the desert from Somalia. Ethiopia's recent military incursion into Somalia in defence of the Transitional Government in Baidoa threatens imminent conflict there against Islamist militias based in the capital, Mogadishu.

On top of this comes the distinct possibility of a conflict with Ethiopia's arch-enemy Eritrea in the north, where perhaps as many as half of Eritrea's young men are massed under arms on its side of the disputed border.

Eritrea's increasingly totalitarian regime has become a regional menace; its foreign policy now appears to comprise nothing more than to support any enemy of Ethiopia's, no matter the cost. On August 8th Eritrea announced its biggest coup to date; a brigadier-general heading the 18th division of the Ethiopian army defected to Eritrea with several ranking officers, hundreds of soldiers, and plenty of weapons.

The general, Kemal Gelchu, was an ethnic Oromo. Probably as many as half of Ethiopians are Oromo, a good number of them Muslim. According to the government's system of ethnic federalism, the Oromos are meant to have a large stake in power. In reality, they are weak and neglected, just as they have always been. A few support the Oromo Liberation Front (OLF)—another rebel group seeking a “fairer” Ethiopia, meaning a shift of power from Mr Zenawi and his fellow Tigrayans, who account for, at most, 7% of the population, but who have dominated the government and the economy since taking power in 1991.

Mr Gelchu's defection puts a face to the deep unhappiness in the non-Tigrayan bits of Ethiopia. He and his men will now undoubtedly join the OLF and fight the Ethiopian government. Force is the only language the government understands, Mr Gelchu says. Alas, force may be exactly what Mr Zenawi is

going to get, and on many fronts.

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Europe and the Middle East

To Israel with hate—and guilt

Aug 17th 2006
From The Economist print edition

Why Europe, unlike America, finds it so hard to love Israel

EPA

THE ugly little mid-summer war that has just ended in Lebanon spilled over into the parliaments, streets, television studios and dinner parties of Europe. By and large, Israel got the worst of it.

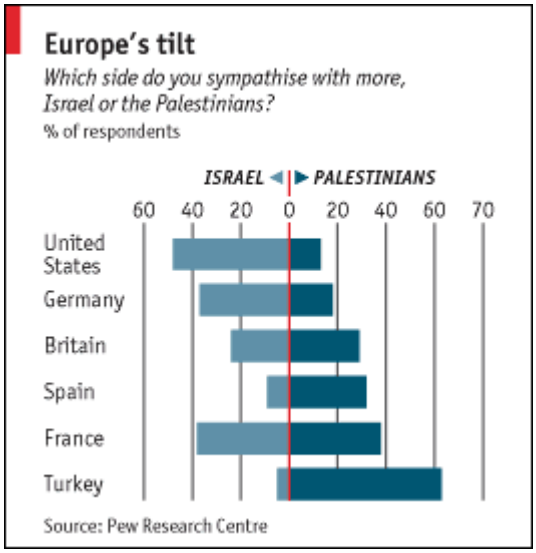
The Council of Europe said that Israel's response to Hizbullah's cross-border attacks was “disproportionate” and accused Israel of “indiscriminate attacks on civilian targets”. Romano Prodi, Italy's prime minister, called Israel's reaction “excessive”. In Norway, Jostein Gaarder, the author of “Sophie's World”, accused Israel of ethnic cleansing and murdering children, and said that the Jewish state had forfeited its right to exist. In many capitals, anti-war protesters marched under Hizbullah flags. When Britain's Tony Blair tried to explain things from Israel's point of view—and failed to call for an immediate ceasefire—his political stock took another tumble.

Mr Gaarder was prodded into a half-hearted apology. But the truth is that, far from being extreme, these criticisms of Israel convey the mood of millions of Europeans, rooted in what polls suggest is a hardening attitude. A YouGov poll in Britain, taken in the first two weeks of the conflict, found 63% of respondents saying that the Israeli response to Hizbullah's attack was “disproportionate”; a similar German poll had 75% saying so.

Such reactions reflect a wider European view of Israel that contrasts sharply with America's. In a Pew Global Attitudes survey earlier this year, far more Europeans sympathised with the Palestinians than with Israel (see chart). These findings come on top of a European Union poll in 2003 that had 59% of Europeans considering Israel as a greater menace to world peace than Iran, North Korea and Pakistan.

Why has Europe become so reflexively anti-Israel, just when America has become so reflexively pro-Israel? Europe has no equivalent of America's powerful AIPAC Israeli lobby, and it also has a disgruntled (and growing) Muslim population. But neither is enough to explain all the difference in attitude. Indeed, many Muslims in Europe now feel beleaguered and can only dream of wielding AIPAC's clout.

Some Americans blame rising anti-Semitism in Europe, which they also attribute in part to its growing Muslim population. But there is a difference between being anti-Semitic and being anti-Israel. And in any case, it is not obvious that anti-Semitism is a big factor. In central Europe, for example, there seems to be both greater anti-Semitism and more support for Israel. And some polls suggest that more Americans think Jews have “too much influence” in their country than do Europeans.



It is also often the right in Europe, linked with anti-Semitism in the past, that is most supportive of Israel today. Britain's Conservative Party, for instance, not always known for its admiration of Jews or Israel, is now the most pro-Israel party. In Italy, which invented fascism, Silvio Berlusconi's Forza Italia and Gianfranco Fini's formerly neo-fascist National Alliance, are more pro-Israel than the government. In Spain, the centre-right opposition was highly critical of José Luis Rodríguez Zapatero, the Socialist prime minister, when he donned an Arab headscarf to show solidarity during the Lebanon war.

Countries that were most culpable in the Holocaust tend to be stauncher supporters of Israel—especially Germany. What was then West Germany became the main financial backer of the new Jewish state six decades ago, with a first payment of $865m in 1952. Aid continued throughout the 1960s, long before America became Israel's main source of outside support. This week's decision to commit German troops to the peacekeeping force in Lebanon also reflects past guilt.

If the right (and the Germans) are doing penance, the left, which now controls many of Europe's chanceries, and certainly much of its media, feels a sense of betrayal—which is why many now attack Israel with all the zeal of the convert. Until the 1960s European socialists championed the cause of the Jews and Israel. Mid-century socialists saw anti-Semitism and fascism as products of the right, so they became instinctively pro-Israel. In the 1950s it was left-wing French governments that provided Israel with nuclear power and a modern air force.

This changed with the six-day war in 1967, when Israel launched a pre-emptive strike to defeat the Jordanian, Egyptian and Syrian forces that seemed about to invade. It was a stunning victory, but it led to the occupation of the West Bank, Gaza and Sinai. To European socialists, who had rallied to the underdog Israel in 1967, the Palestinians were now the oppressed and displaced. Israel came to be seen as a neo-colonial regional superpower, not the plucky survivor of the Holocaust keeping powerful neighbours at bay.

In the decades after 1967 Israeli politics also changed. The Labour Party, which had largely ruled Israel since 1948, began to lose ground to right-wing parties, notably Likud. European left-wingers, who had idealised Golda Meir's Israel as a pioneering socialist collective of happy kibbutzniks, were shocked by what they saw as the militarisation and racism of Menachem Begin's Israel—and they began a romance with the Palestinians instead.

This change can be chronicled over nearly a century in such liberal papers as Britain's *Guardian*. Chaim Weizmann, the first president of Israel, played a vital role in fostering the *Guardian*'s early advocacy of Zionism and Israel, but the paper is now one of Israel's harshest critics. The BBC, a bastion of the soft left establishment, has also been criticised for its bias against Israel, not least during the latest war.

Attitudes to America have also clouded European views, especially on the left. As Israel has drawn closer to America in the past few decades, the left's antipathy towards the behemoth of capitalism has spilled into dislike of Israel. Public opinion in Turkey, the one Muslim country that was once pro-Israel, has turned against it in parallel with its turn against America, especially over the war in Iraq.

Emanuele Ottolenghi, an expert on Israel and Europe at Oxford University, argues that “Europeans see Israel as the embodiment of the demons of their own past.” The European Union is supposed to have traded in war, nationalism and conflict for love, peace and federalism. But Israel now reminds Europeans of darker forces and darker days.

Could attitudes change? It seems unlikely, not least because Israel is now so stridently critical of the Europeans, especially of their media. In this area, at least, the transatlantic gap is widening.

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Günter Grass

Another hero lost

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A left-wing firebrand comes clean about his murky past

REALITY can be stranger than fiction, even for such an inventive novelist as Günter Grass, author of the 1959 novel “The Tin Drum”, which started a career that led to the Nobel Prize for literature in 1999. After a lifetime of prodding Germans to come clean over their Nazi past, the 78-year-old writer has caused uproar by publicly confessing that, during the war, he was not just an assistant on anti-aircraft batteries, but a member of the Waffen-SS.

Mr Grass said in an interview that he volunteered for submarine duty but was instead called up in 1944, at the age of 17, to join a tank division of the Waffen-SS. Mr Grass says he did not fire a shot, was injured in April 1945 and taken prisoner-of-war by American troops.

What irks his critics is that this confession comes 60 years late—and from a man who set himself up as Germany's moral conscience in facing up to the Holocaust. There have been plenty of chances, they say, for him to come clean, such as the 1985 visit by Chancellor Helmut Kohl and President Ronald Reagan to the military cemetery in Bitburg, where some Waffen-SS members were buried. Mr Grass was an outspoken critic of that visit.

Speculation is rampant about why Mr Grass kept quiet for so long—and why he chose to speak out only now. To his harshest critics, it has much to do with ambition and salesmanship. If his past had been known, they say, he would never have been considered for the Nobel (which conservative politicians now want him to return, just as Lech Walesa, a former Polish president, has called on Mr Grass to give back honorary citizenship of Gdansk, his native city). Some maintain that he has broken his silence now as a publicity stunt to boost his autobiography, “While Peeling the Onion”, which has just come out.

Mr Grass's own explanation may be more troubling. He has always admitted falling for Nazi ideology. But he writes in his book that “out of growing shame” he wanted to forget after the war. In his interview he added that what he “did as a writer was enough” to atone. His silence weighed on his mind: “in the end it simply had to come out.” Yet he seems unable to admit that he made a mistake: this week his response to critics was merely to say that people should read his book.

This affair also reveals a change in how Germans think about their past. The culture of commemoration has altered, says Harald Welzer, head of the Centre for Interdisciplinary Memory Research in Essen. A decade ago, news that Mr Grass was a member of the Waffen-SS would have wholly destroyed his reputation. “Now, people are much more forgiving.”

In a way, Mr Grass is benefiting from a shift in his own thinking. For decades, he was the closest that Germany had to a public conscience over *Vergangenheitsbewältigung*, or coming to terms with the past. Yet in his 2002 novel, “Crabwalk”, he was one of the first to make it acceptable to acknowledge Germans' own wartime suffering. His confession now is a reminder that, for all the flag-waving during this summer's soccer World Cup, Germany finds it hard to turn the page on the past.

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Russia and Ukraine

Honey, I'm home

Aug 17th 2006 | MOSCOW
From The Economist print edition

What Ukraine's new government means for its foreign policy

Get article background

THE contrast with Yulia Tymoshenko, who was once and hoped again to be Ukraine's prime minister, could not have been greater. When she visited Moscow last spring, she diced with arrest by local prosecutors on corruption charges. But Viktor Yanukovich, who is now prime minister, with a past that involves more parochial offences, was warmly welcomed in Russia this week. Conventional wisdom has it that, with Mr Yanukovich back in the job he held before the "orange revolution" of 2004, Russia will be nicer to its neighbour. But although Ukraine's mad politics has brought Mr Yanukovich back, things have changed in the Kremlin.

Mr Yanukovich and Viktor Yushchenko—who defeated him in the 2004 presidential election, but accepted him as prime minister earlier this month—say that their unlikely cohabitation can heal the political rupture between eastern and western Ukraine. Another hope is that Mr Yanukovich will mend the rift between Kiev and Moscow opened by Mr Yushchenko's pro-western orientation. Vladimir Putin, Russia's president, backed Mr Yanukovich in 2004, even prematurely congratulating him on a rigged victory that was later overturned. The Russians have continued to support him, if less overtly.

"The dynamics are positive," averred Dmitri Peskov, a Kremlin spokesman, of Mr Yanukovich's meeting on August 16th with Mikhail Fradkov, his Russian counterpart, and Mr Putin at the Black Sea resort of Sochi. Although details were sketchy, Mr Yanukovich said that the two countries had reached agreement on the most divisive subject of all: gas, which Russia supplies to Ukraine, and via Ukraine to the rest of Europe. Mr Yanukovich was ostensibly hoping for a gas-price cut. But he would be pleased to keep close to the present price, agreed after the January crisis when supplies were briefly shut off, in 2007 (though Turkmenistan, source of much of Ukraine's gas, may scotch even that hope).

If only to irk the Americans, who had hoped to avoid Mr Yanukovich and have a new "orange" coalition instead, the Russians may now try to boost his standing with minor concessions. But Fyodor Lukyanov, editor of *Russia in Global Affairs*, says that Mr Yanukovich "cannot change the nature of relations" between the two countries. That is partly because his "pro-Russian" stance may turn out to be cosmetic as much as concrete. The tycoons who stand behind him compete with Russian business, and his government may not welcome Russian investment. He is also a walking reminder of Mr Putin's most bitter foreign-policy humiliation. Most important of all is the change in the Kremlin's attitude that Ukraine itself brought about. Relations with its ex-Soviet neighbours are now increasingly based on economic pragmatism. "Wayward" countries such as Georgia might be punished, but charity to friends is now rarer.

Ukraine's foreign policy is technically Mr Yushchenko's prerogative, as president. But as Mr Yanukovich's Sochi jaunt shows, it will be hard to keep him out. The real risk is not that Ukraine ends up with two contradictory policies: it is that both will fail, with westward integration stalling but Russia remaining aloof.

The domestic rift may be even harder to bridge. Some of Mr Yushchenko's people are in Mr Yanukovich's cabinet; Mr Yanukovich has signed up to many of the president's principles. But, with no legal force, that deal may as well have been written on the waters of the Dnieper—and Mr Yanukovich is already straying from it.

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Azerbaijan and oil

Too much of a good thing

Aug 17th 2006 | BAKU
From The Economist print edition

A case study in the perils of being a petro-state

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THE beaches near Baku are popular weekend spots. But their view of the Caspian is spoiled by a rusty oil platform towed close to the shore years ago. By contrast, an hour's drive south is the gleaming Sangachal terminal, the starting-point of the new $3.9 billion Baku-Tbilisi-Ceyhan (BTC) oil pipeline.

The old and the new, the past and the future, are never far apart in Azerbaijan, which 100 years ago was briefly the world's largest oil producer. Now, after 15 years of independence, Azerbaijan is seeing another boom. By 2010, oil production is expected to triple, to 1.3m barrels a day, and gas output to quadruple, to 28 billion cubic metres a year. The first oil was delivered through the BTC pipeline in June. A Baku-Tbilisi-Erzurum gas pipeline will open later this year. If oil prices average $50 per barrel (they are now over $70), these two will bring a massive $140 billion into Azerbaijan's state coffers over the next 20 years, claims President Ilham Aliev.

Such a gushing of money ought to be a blessing for this impoverished country. It has just 8m people, but that includes some 800,000 refugees left from the war with Armenia over Nagorno-Karabakh in the early 1990s. Yet few oil-rich countries have avoided the triple threats of corruption, competitive rent-seeking or “Dutch disease”—in which, thanks to exchange-rate appreciation, oil production crowds out other economic activity.

Azerbaijan is, according to Transparency International, one of the most corrupt places in the world. Under Mr Aliev, it is a thinly disguised autocracy. Yet it has taken some steps. A national oil fund, set up in 1999, holds some $1.6 billion. Azerbaijan has also signed up to the Extractive Industries Transparency Initiative (EITI), an anti-corruption scheme established by Britain's Tony Blair in 2002. Oil companies report payments to the oil fund, which publishes full details. An independent auditor checks the fund. “I think it has worked very well,” says David Woodward, associate president of BP Azerbaijan, the biggest foreign investor in the oil industry.

The problem is that, even if revenues are well-monitored, spending is not—since it is not covered by the EITI. Observers in Baku say the government is already spending too much money, too quickly and with too little oversight (needed to stop such things as the awarding of contracts to close relatives). Inflation has risen and the currency, the manat, has appreciated, symptoms of a possible outbreak of Dutch disease.

The model that Azerbaijan, like other oil producers, aspires to is that of Norway, which has built a huge stabilisation fund without distorting its economy. Even Russia's economic management has been better than some critics feared. But it would be miraculous if a poor country, under intense social pressure, managed a similar feat. The risk for Azerbaijanis, as for Venezuelans or Nigerians, is that the oil bonanza will end up hurting the people it ought to help.

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Bosnia's future

Prickle-points

Aug 17th 2006 | BANJA LUKA AND SARAJEVO
From The Economist print edition

Despite mutterings by Bosnia's Serbs, the country is not about to come apart

IN BOSNIA it can be hard to sort fact from fiction. Official figures suggest that 40% of the population is unemployed and average monthly income is only €250 ($320). If these numbers were right, most Bosnians would be starving—and fewer would be fussing about their herbaceous borders. Yet a drive round the country suggests far more money is around. Srecko Latal, who works for the World Bank in Sarajevo, tells the joke of one Bosnian saying to another, “I earn €300 a month, spend €400, and save €250.” That, says Mr Latal, is the way for many tax-avoiding Bosnians.

As with incredible statistics, so with unbelievable politics. The country's latest outburst of political bickering began after Montenegro's vote for independence from Serbia in May. This prompted Milorad Dodik, premier of the Serb bit of Bosnia, Republika Srpska, to declare that he saw no reason why Bosnian Serbs should not have the right to vote on independence too. Bosnian politics, previously calm, promptly lapsed into fractiousness.

The mood got worse two weeks ago, when Serbian television showed film of a Serb prisoner being executed by Croatian or Bosnian soldiers 11 years ago. The suggestion is that some 200 Serbs, mostly civilians, suffered the same fate. In another film a former Bosnian commander, Atif Dudakovik, revered by Bosnia's Muslims (or Bosniaks), was heard ordering that Bosnian Serb villages be burned. Mr Dodik has filed charges against him. Later, a bomb damaged the tomb of Alija Izetbegovic, the Bosniaks' wartime leader.

At the end of the war in 1995, Bosnia was recognised as having two “entities”, one dominated by Serbs and the other by Bosniaks and Croats. An international proconsul was appointed as the final arbiter of political life. One reason why Mr Dodik's latest comments have struck raw nerves is that this proconsul job, now held by Christian Schwarz-Schilling, a German diplomat, is being phased out. There are elections in the offing too: polls will be held across Bosnia on October 1st.

In his basketball club near Banja Luka, the Bosnian Serb capital, Mr Dodik does not deny that he is chasing Serb votes. He sticks to his demand for the right to a referendum, but adds that he “cannot see any reason to create a future outside of Bosnia.” Today his Republika Srpska is under pressure to cede powers to the central government in Sarajevo. He notes that, if Kosovo's Albanians win independence,

“they will gain everything, while the Republika Srpska loses everything. This would be an amazing case of double standards.”

In Sarajevo, Senad Pecanin, editor of *Dani*, a magazine, frets that Bosnians are arguing about things that led to war—and not more immediate issues, such as corruption and jobs. Senad Slatina, a political analyst, agrees, adding that “the Republika Srpska can't declare independence without war. Dodik knows this but does not say it. He is a manipulator.” Mr Dodik retorts that it is unfair to criticise him when Bosniak politicians such as Haris Silajdzic are not criticised for saying that the Republika Srpska was born out of wartime genocide and should be abolished.

Yet those who fear that all this heralds a return to the past, or even the break-up of the country, should pause to consider the composition of Mr Dodik's government, which even includes ministers from Mr Silajdzic's party. To get at the facts in Bosnia it may be better to see what people do, not listen to what they say. Bosnia's best-functioning institution is its European integration team, headed by a Bosniak but with a Serb as chief negotiator.

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Turkey's gypsies

Fighting bulldozers

Aug 17th 2006 | ISTANBUL
From The Economist print edition

An embattled minority in an ancient urban neigbourhood

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A FAMOUS scene in the film “From Russia With Love” shows a pair of gypsy beauties fighting tooth and nail as James Bond looks on. It was shot in Sulukule, a part of Istanbul where Turkish gypsies have caroused for 1,000 years.

Amberin Zaman

Home sweet home

Their party may end if the local municipality proceeds with plans to replace their homes with garish Ottoman-style “villas”. Mustafa Demir, the local mayor, insists that the aim is to conserve the area. Homeowners will be compensated and offered cheap loans to buy the new houses. But the gypsies are unswayed. They say that the real aim is to drive them out. “The notion that we should pay to buy back what was ours to begin with is crazy—most of us can barely feed our children,” fumes Sukru Punduk, a gypsy leader.

On the Asian side of Istanbul, scores of gypsies live in shacks surrounded by rubble and flies, after municipal workers bulldozed their homes when they refused to accept an urban-renewal scheme. “We have no water, no electricity, no toilets, and nowhere to go,” says Yuksel Dum, who shares a tiny shed with 16 family members.

Few Turks, let alone foreigners, know that Turkey is home to 2m gypsies, one of the world's largest Roma populations. In Ottoman times, they wielded considerable economic influence as basket-weavers and horse-dealers; they helped to conquer Cyprus and to defend Kosovo. They never suffered the racist violence that gypsies met in Europe, but discrimination has now become widespread. A 1934 law allows the government to deny them citizenship. The few gypsies who succeed in politics tend to conceal their roots; so do the many who have made it in music and cinema.

Now, emboldened by Turkey's European aspirations, gypsies are asserting themselves. Mustafa Aksu, a gypsy journalist, has got a Turkish encyclopedia to expunge the words “immoral and shameless” from its gypsy entry. He has taken a case against a book published by the culture ministry that calls gypsies “polygamists, prostitutes and thieves” to the European Court of Human Rights. And Mr Punduk is fighting for Sulukule.

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Countering terrorism

John Reid's moment

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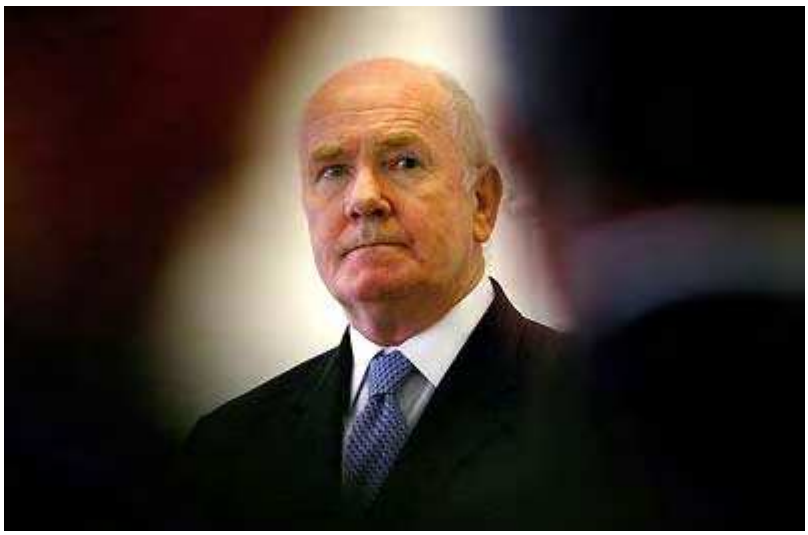
Reuters



A terrorist plot has done no harm to an ambitious home secretary

IT ALREADY looks as if the uncovering of an alleged plot by young Britons, mostly of Pakistani origin, to blow up as many as ten America-bound airliners will change the way people everywhere fly. The political consequences may be as far-reaching.

The first reaction of most Britons to the news of 25 arrests was almost certainly what the government would have wished: admiration for the work of the security services and the police, combined with weary resignation on the part of travellers faced with disrupted journeys. But as ministers know only too well, first reactions fade quickly. What voters will remember is whether the government appeared competent and in control; and whether, overall, its policies are helping to make them more or less safe.

Five days on and barely out of his floral swimming trunks after a family holiday in Corfu, David Cameron, the Conservative leader, launched a brisk attack on the government's record on dealing with Islamist terrorism. He criticised Gordon Brown, the chancellor of the exchequer, for freezing the budget of the beleaguered Home Office for the next three years. He trotted out a couple of familiar Tory gripes: the government's reluctance to allow intercept evidence to be used in court and the need for a minister with specific responsibility for counter-terrorism. He added that the government had failed to follow through on the measures announced by Tony Blair in the immediate aftermath of last year's London bombings, in particular, the promise to deport jihadist preachers and to do something to tackle the alienation of young Muslims.

Mr Cameron can't be blamed for wanting to get some headlines of his own, but at such times, the government's critics have to tread carefully. The Tories are already open to the accusation—one swiftly reiterated by ministers—that in opposing legislation to introduce ID cards and to detain suspected terrorists for up to 90 days, they are putting public safety at risk.

If the government found it easy to bat away the Conservative attack, it was bowled a full toss by a group of influential British Muslims, including three Labour MPs. In an open letter sent to Mr Blair on August 12th, they suggested the prime minister's policies in Iraq and the Middle East were providing “ammunition” for extremists. The letter's signatories rapidly found themselves under assault from almost every quarter for appearing to want to give terrorists a veto over British foreign policy.

The government has also been fortunate that, while Mr Blair was away, it was John Reid, the home secretary—rather than John Prescott, the increasingly pathetic deputy prime minister—who took charge. Only hours before the police decided to act, Mr Reid was giving a speech to Demos, a leftish think-tank, entitled “Security, Freedom and the Protection of our Values”. It was pure coincidence: Mr Reid knew of the police investigation into the plot, but not of the speed with which matters would be brought to a head. However, the speech could not have looked more prescient given what was to come. Declaring that Britain was “probably in the most sustained period of severe threat” since the second world war, Mr Reid laid into the opposition politicians, judges and media commentators who “just don't get it”.

In the days that followed, Mr Reid did what he does best: to convey both calm and menace with an aura of almost super-human confidence in his own ability. He may have overstepped the mark when he claimed that the police had caught “the main players”, but most concede his performance as warrior leader has been highly impressive. So much so that one member of the Conservative shadow cabinet reportedly described it through gritted teeth as “contemptibly brilliant”.

Some at Westminster now believe that the crisis has propelled Mr Reid into a position that might make him a serious contender against Mr Brown when Mr Blair goes. Given the propensity of the Home Office to poison the careers of those appointed to lead it, the fact that Mr Reid is now being talked of in those terms is in itself quite a tribute to his political skills.

He is indeed a much more interesting and complicated figure than the “attack dog” label pinned on him by Jeremy Paxman, a television interviewer, would suggest. A former communist (he says, “I used to believe in Santa Claus too”), Mr Reid has held eight cabinet jobs in seven years, including defence (see article). Along the way, he has become one of the government's most articulate exponents of what is now known as Blairism: muscular interventionism abroad and public services reformed by market disciplines at home.

What's more, in his gravelly Lanarkshire tones, he has the ability to express essentially right-wing policies in the language of Kier Hardie (the first leader of the Labour Party, who was born in the constituency he represents). Islamist terrorists, he says, are “fascist individuals” who are determined to destroy the “biggest achievements of democratic socialism”.

In the days before he took charge of the nation's security last week, Mr Reid was even hinting that the government might have to place a limit on immigration, saying: “We have to get away from this daft, so-called politically correct notion that anyone who wants to talk about immigration is somehow racist.”

The home secretary is still far behind Mr Brown in the Labour leadership stakes, but some Tories think that his brutally populist instincts could make him a more formidable opponent than the dour chancellor. Labour MPs whose hearts fail to flutter at the prospect of Mr Brown are also watching closely. What is certain is that events have given Mr Reid an opportunity that he has seized with both hands.

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The army in Afghanistan

A thin green line

Aug 17th 2006 | LASHKARGAR
From The Economist print edition

The army is fighting a crucial battle for Afghanistan's future

IN southern Afghanistan, British soldiers are engaged in fierce fighting with heavily armed Taliban guerrillas. There are now 4,500 troops in Helmand. Since the first contingent arrived in the province on May 1st, ten have been killed. John Reid, the former defence secretary, had expressed the hope they would not fire a single round during a three-year peacekeeping mission. So far they have fired 80,000.

Reuters

A long way from home

Something has gone wrong. Army planners had warned the government that western troops dispatched to Helmand, a vast province that produces more of Afghanistan's opium crop than any other, faced an unpredictable and probably violent reception. As it has turned out, the army, which is part of a NATO-led 18,500-strong peacekeeping mission in Afghanistan, has itself been surprised by the ferocity of the Taliban's attacks. The NATO force, currently under British leadership, is calling for reinforcements. If these are not forthcoming and the Taliban sustains its attacks, NATO may fail in its objective to pacify the south. That would be deeply embarrassing both for the government and NATO, which have staked much on the venture. It would be a calamity, however, for Afghanistan.

The resilience of the Taliban in the south should have come as less of a surprise. After America bombed them from power in 2001, they fled across the border into Pakistan or returned to their villages in southern Afghanistan. Distracted by the war in Iraq, America then failed to control what it had won, deploying only around 100 soldiers, for example, in Helmand. Instead it sought to quell the increasingly rebellious south with air strikes and occasional infantry sweeps. The strategy killed thousands of alleged Afghan militants but it has not been a success. Supported by bases in Pakistan, and enriched by cash from Afghanistan's booming opium crop, the Taliban stealthily regained their grip over the south.

The NATO mission is an attempt to wrest back control for the Afghan government. Canadian, Dutch, Australian and Estonian troops have been sent to other southern provinces. NATO took over the south from the Americans on July 31st; within three months, it hopes also to take over the south-east. Using a classic counter-insurgency strategy, the goal is to establish havens across the region, from which development aid can be dispensed and the wider population gradually won over. Yet such is the violence in Helmand, the strategy there is looking shaky.

Besides aiming to make havens of the main towns, Lashkargar and Girishk, the British have established half a dozen outposts in the north of the province. But these have been under heavy fire. During ten days in July, at Kajaki, eight British soldiers and a score of Afghans withstood over 30 attacks by Taliban

guerrillas. Although troops can hold the outposts they are unable to deliver the promised aid. Moreover, running the garrisons is putting a strain on resources. Yet, with only 1,000 combat soldiers in Helmand, the British are already stretched.

This highlights a central weakness in the overall mission. The NATO force has no reserves to reinforce troops in the most violent bits of its beat—despite its military chiefs having requested around 1,000 well-equipped troops to carry out this crucial role. In part because of this, NATO is planning to withdraw British troops from the outposts in Helmand, leaving Afghan soldiers. Although they will be unusually well supplied, this is a risky move, since the quality of local troops is variable, to say the least. But given its limited resources, NATO has no other option.

There is a glimmer of hope. There have been fewer Taliban attacks this month, maybe because so many of their fighters have recently been killed, maybe because some are losing heart. If hostilities were to abate the British might be able to dispense a decent amount of the £20m ($38m) aid budget earmarked for Helmand this year, before the onset of the next fighting season in the spring of 2007. If not, NATO chiefs worry that the people of Helmand and of the south, who are yearning for some stability, may lose patience and back the Taliban militants. If that happened, the international effort to rebuild Afghanistan would be fatally undermined.

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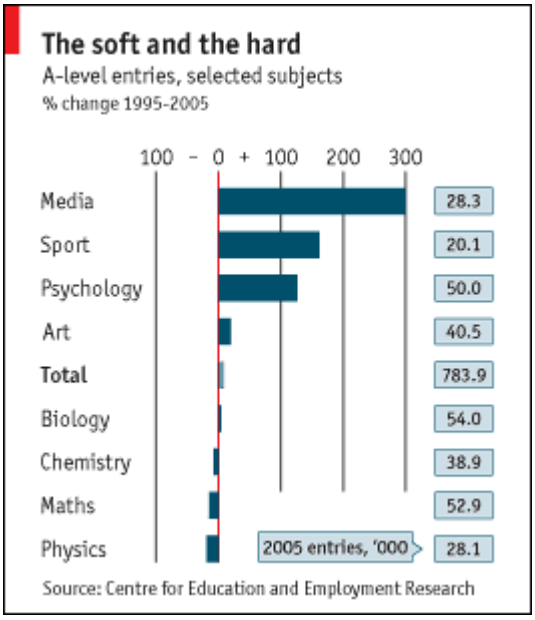
Science in schools

Failed experiment

Aug 17th 2006
From The Economist print edition

How to stop physicists opting for media studies



IT HAS become a summer ritual. First, glowing exam results for 18-year-olds are published, then an inquest into their worth is conducted. On August 17th A-level results showed yet another rise in the pass rate, which prompted familiar concerns about grade inflation. But business leaders are now just as worried about the falling number of pupils studying science.

“Finding good, solid, technical people from secondary school is a real problem,” says Alan Wood, chief executive of Siemens in Britain. The company often struggles to fill its apprenticeship schemes. On August 14th the Confederation of British Industry said that the fall in the number of young scientists was a long-term threat to the economy. By 2014, employers will supposedly need 2.4m more scientists, engineers and laboratory technicians; but already there are too few of them.

Among the traditional sciences, physics is the least popular. The number of pupils taking the subject at A-level has halved since 1982, according to a report on August 11th by Alan Smithers, professor of education at the University of Buckingham. Media studies is now more popular than physics (see chart). Chemistry is also losing ground, though at a slower rate; only biology, with a small rise, is holding up.

The mismatch between booming employer demand and dwindling student supply seems odd. Part of the explanation lies in the way that science is now taught. Since the introduction of a national curriculum in 1989 most pupils taking their GCSE exams at 16 take a combined course of physics, chemistry and biology. The hope was that this would give children a good grounding in all three disciplines, but the policy has backfired. Most pupils are unable to get sufficiently to grips with the individual sciences, which makes it harder to take them at A-level.

A lack of specialised teachers makes matters worse. Only one in five GCSE science teachers in state-secondary schools has a specialist physics qualification. Chemistry, too, suffers from a shortage of specialised teachers.

A vicious circle has developed. The fewer the children taking science A-levels, the fewer that go on to study science at university. More than a quarter of universities that once had big physics departments have ditched the subject over the past decade. Yet physics graduates are especially sought after in well-paying industries like finance. That leaves fewer available to teach the subject in schools.

The pressure of grades and league tables also works against the interest of the hard sciences. Children want to get the highest marks in order to secure a place at university. Schools know that they can get higher ratings if their pupils take easier subjects. And cultural changes may also be dulling the appeal of science for boys and failing to extend it to girls, who show scarcely more interest in physics than they did two decades ago.

An obvious remedy for the shortage of specialised teachers is to pay them more than the rest of the profession. For physics, a change in the teacher-training requirements would also help. At present, physics teachers must also qualify to teach chemistry or biology. According to Mr Smithers, they would

rather teach maths. And science would become more attractive to pupils, if the difficulty of science A-levels were reflected in the points given them for university applications.

The government now recognises that integrating the sciences at GCSE has not worked. From 2008 it plans to allow the brightest pupils to study biology, chemistry and physics separately. It is also paying bursaries to students on training courses and cash awards for those who then go on to teach. The reforms will help but it will still be a long haul to reverse the long decline of science education.

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First world war pardons

The war over pity

Aug 17th 2006
From The Economist print edition

Why the deserters have been forgiven

ABOUT 500 French soldiers were shot for desertion or cowardice during the war of 1914-18. They were pardoned in the 1930s, thanks to a vigorous campaign by veterans and a general feeling that their behaviour had been understandable given the circumstances. By contrast, the British government has always decided against issuing pardons to the 306 British soldiers shot for the same reasons.

When the question arose in 1998, John Reid, who was then the minister in charge of the armed forces, said that there was insufficient evidence to revisit past judgments. It was therefore surprising when Des Browne, the current defence secretary, announced on August 15th that the soldiers would after all be pardoned.

The change of heart probably owes its timing to the government's legislative programme. The pardons will require an amendment to a defence bill that is currently passing through Parliament. The defence ministry says it usually writes a new bill once every four years. If it missed this year's slot, families who have long been campaigning for their grandfathers, would have to wait even longer.

At a time when British soldiers are deployed in Iraq and Afghanistan, there may be also some advantage for the defence secretary in displaying the government's softer side. But the decision reflects a longer-term shift in public attitudes towards the first world war.

Joanna Bourke, a historian at Birkbeck College in London, says that the Great War, as it was once known, has now become “safe”, joining the battles of Agincourt and Waterloo in the realm of history proper. Television documentaries about it are becoming rarer as the number of eyewitnesses to interview shrinks. This has helped to make the war, and with it the notion of letting down comrades, seem more remote. Meanwhile Pat Barker's successful “Regeneration” trilogy of novels accustomed people to the idea that trench warfare was not only hell but was also liable to drive soldiers mad. A pardon now, say campaigners, will bring comfort to families who have lived with the stigma of what happened to their grandfathers.

Some historians, wary about jumping into the trenches with a pair of 21st-century trainers on, are dubious about rewriting the past. First, they argue that although the courts-martial that condemned the men may look shoddy now, they were not by the standards of the day. There were probably some miscarriages of justice in which brave men were branded as cowards. For example, Harry Farr volunteered to join the army in 1914, but then developed something that sounds very like shell shock. After declining the offer of a blindfold, he was executed by firing squad in 1916 for refusing to fight again. But on the whole the system of military justice was not as vindictive as his case suggests.

The 306 who were executed represent a tenth of the total number sentenced to death for military offences (as opposed to civilian ones like murder). The rest were let off. A study of the files by John Peaty, a historian at the defence ministry, shows that 40 of those shot had been handed a death sentence once before. “This scarcely suggests a harsh and unforgiving system of military justice,” says Laurie Milner, a colleague of Mr Peaty. “A majority of cases were recidivists who had deserted before,” points out Hew Strachan, a historian at All Soul's College, Oxford.

Furthermore, those deaths encouraged other soldiers to stay in place. Fighting in the trenches was so horrible that soldiers devised creative ways to escape them. According to their diaries, tips included how eating a large quantity of orange peel could bring on a fever, and how injecting condensed milk into the urethra could simulate venereal disease. The German army, which shot only 48 of its own soldiers during the war, seems to have suffered far higher rates of desertion (which is one reason why it shot some

20,000 in the second world war). Seen this way, the soldiers who will be pardoned did their bit to win the war too.

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Transport emissions

Moving target

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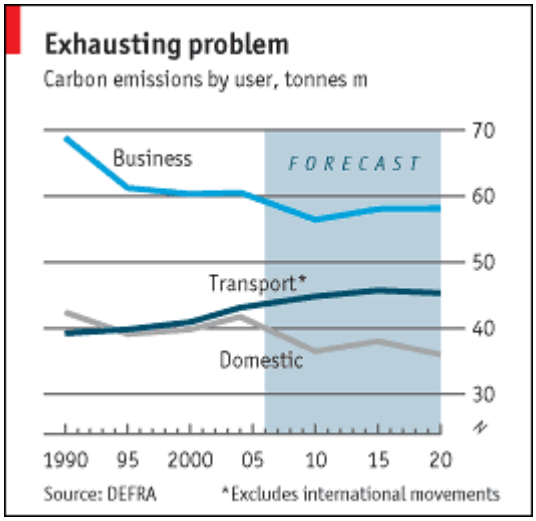
Clobbering the motorist may not be the best approach



ALMOST a century ago, John Masefield celebrated the "dirty British coaster with a salt-caked smoke stack" in his poem, "Cargoes". Nowadays, a poet might instead excoriate the dirty British car and its carbon-spewing exhaust pipe for its contribution to global warming.

Transport is the only sector of the economy in which carbon emissions have risen since 1990. It is also the only one in which they are expected to be above that year's level in 2020 (see chart). Road traffic, producing 95% of carbon emissions from transport, is the main culprit.

Cars are steadily getting cleaner thanks to technological advances. Manufacturers reckon that snazzy new engines cut carbon emissions from new vehicles by about 1% a year. But this saving is eroded by drivers' increasing fondness for safer, heavier and more gadget-infested vehicles, which guzzle more gas and so emit more carbon.

Such choices are also shaped by political reluctance to raise taxes on motorists. In Labour's early years of office, Gordon Brown carried on with the Tory policy of raising petrol taxes faster than inflation. However, the chancellor of the exchequer hastily dropped that approach after protests caused shortages and panic in 2000. Despite the subsequent increase in oil prices, petrol is now 7p per litre cheaper in real terms than it was in 1999.

In his spring budget Mr Brown made much of green measures to encourage purchases of cleaner cars by private consumers. But the reality was limper than the rhetoric. The chancellor raised the tax differential between the cleanest and the dirtiest petrol-using cars from £100 to £210 a year. Such an increase seems unlikely to deter drivers of expensive, polluting cars. Indeed, the system favours the dirtier: the driver of a sporty BMWX5, for example, pays £0.66 for each gram of carbon dioxide it emits, compared with £0.74 per gram for the driver of a greener Toyota Yaris.

MPs who track the government's green record are unhappy with its timid approach. In a report published on August 7th, the Environmental Audit Committee castigated the transport department for its "dismal failure of purpose". The MPs called for a steep rise in excise duty on the dirtiest cars from £210 to £1,800. And they urged a return to the policy of raising fuel taxes faster than inflation. Both proposals would work. Fleet managers in firms, for example, face much stiffer duties on dirty cars than do private motorists. As a result, emissions from business fleets have fallen faster than those from private cars.

The snag is that a carbon crackdown would be very unpopular. Lowering the motorway speed limit to 60 mph, for example, would reduce carbon-dioxide emissions by around 18%. The committee concluded, unsurprisingly, that the transport department is too fearful of a public backlash to do so.

Yet opposition to higher taxes may be more than mere whingeing. Research by David Newbery, a professor of economics at Cambridge University, suggests that the cost to society imposed by the various pollutants, including carbon, produced from car engines works out to around 42p per litre of petrol burned and 47p for diesel. With fuel taxed at 47.1p per litre, this implies that road transport is, if anything, paying too much. By contrast, housing is getting off lightly, according to Mr Newbery. Heating fuel, for example, receives substantial tax breaks. But at a time of soaring utility bills, ending these

concessions would be as politically unpalatable as squeezing motorists.

Last month Tony Blair described climate change as “probably the greatest long-term challenge facing the human race”. Transport's high and rising emissions make it an obvious target. But that does not mean it is the right one. Properly accounting for the costs of global warming does not necessarily imply less private motoring—which is, after all, a very valuable good. If cars are already paying their way, ministers should arguably look for carbon savings elsewhere.

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Women in business

The Pepsi challenge

Aug 17th 2006 | NEW YORK
From The Economist print edition

What Indra Nooyi's appointment as boss of PepsiCo says about the management of American companies

WAS ever a chief executive less of a public figure than Steve Reinemund? Put in charge of PepsiCo in 2001, just as the cult of the celebrity chief executive was discredited, Mr Reinemund has contented himself with running the drinks and snacks firm extremely well—and shunning publicity. He is said to attend conferences only if he is not asked to speak.

His successor, Indra Nooyi, whose appointment was announced this week, could hardly be more different—and not just because she is a woman. Ms Nooyi, born in India, fronted an all-girl rock band at college and once led a diversity conference in a rendition of the “Banana Boat Song”. Last summer she issued an apology after a speech in which she criticised America for seeming to give the finger to the world, something deemed unpatriotic by some of her adopted countrymen.

PepsiCo's leadership change is unexpected—or, at least, sooner than expected. Mr Reinemund's explanation for retiring early, that he wants to spend more time with his family, is often a euphemism to spare the embarrassment of someone forced out. Inevitably, there has been speculation that this is so, perhaps due to strains in his relations with some board members or, more plausibly, because Ms Nooyi had threatened to accept one of the job offers that frequently come her way, and the board did not want to see her go.

People who know Mr Reinemund well dismiss such speculation. If he is leaving earlier than he wanted (he will step down in October, and as chairman in May) it is at most a few months early. Mr Reinemund had done well at PepsiCo. Operating profits last year were $5.9 billion, half again as big as in 2001, when he took over, on sales of $32.6 billion, which were 38% higher. Most satisfyingly, under him PepsiCo has exceeded for the first time the stockmarket value of archrival Coca-Cola.

The appointment is a case study in the right way to manage transition at the top, says Margarethe Wiersema, an expert in management succession at Rice University. Ms Nooyi has been groomed for the top job (along with her main rival, Michael White, head of PepsiCo's international operations), after joining from ABB, an engineering firm, in 1994. She knows the firm's markets well, having been part of many of the strategic decisions that have made PepsiCo what it is now. She oversaw the acquisition of Tropicana, a juice firm, and Quaker, owner of the Gatorade brand of drinks, which has been one of

PepsiCo's biggest successes as the firm reduced its reliance on cola. She also presided over the spinning-off of various restaurant chains, which allowed PepsiCo to focus.

Such a smooth transition (which follows a similarly well managed hand-over to Mr Reinemund from his predecessor, Roger Enrico) is an anomaly nowadays, says Mrs Wiersema. Boards under pressure from investors are dismissing chief executives abruptly, which is leading to more hires from outside a firm or, if from inside, appointing a chief executive who represents radical change—such as Pfizer's promotion earlier this month of its general counsel, Jeffrey Kindler, who, in a break with the firm's tradition, is neither a scientist nor from sales.

That PepsiCo has appointed a woman to its top job is an even bigger anomaly. Ms Nooyi will be the 11th woman running a firm in today's *Fortune* 500 list of America's biggest companies. That is the most there has ever been, up from zero in 1994, but still a tiny number. “Things are moving in the right direction, but progress is glacial,” says Deborah Soon of Catalyst, an organisation that tries to help women climb the corporate ladder. The same is true throughout the executive suite. According to Catalyst, only 16% of the corporate officers of *Fortune* 500 firms are women. Since women comprise half of the managers and other professionals in the American workforce, the glass ceiling still seems formidably thick.

The new Carly

Ms Nooyi will become the world's most important female chief executive. She is the obvious successor in the public eye to Carly Fiorina, who was forced out as boss of Hewlett-Packard, a Californian technology company, in 2005. Both Archer Daniels Midland (run by Patricia Woertz) and Kraft (by Irene Rosenfeld) have slightly higher revenues, but PepsiCo is now the biggest company by stockmarket value with a female boss.

Because there are so few women chief executives, “they become role models whether they like it or not,” says Ms Soon. Ms Nooyi will also be a model for women of colour, she says. PepsiCo has long had a reputation for training executives, male and female, many of whom get poached. Sara Lee took its chief executive, Brenda Barnes, and Kraft pinched Ms Rosenfeld from the food giant. The firm is known to promote according to performance, and managers are expected to create a diverse pool of talent beneath them.

Many of America's top female bosses are in the consumer-goods industry. In this business, most consumers are female, so having women in charge can help companies understand them. Consumer-goods firms started appointing women as brand managers in the 1980s, and at firms such as Sears, Federated Department Stores and Kimberly-Clark as well as PepsiCo, more than a quarter of the top officers are women. Research by Catalyst found that firms with a higher share of female officers had stronger financial performance than their peers in every industry, not just in consumer goods—and no one has challenged its numbers yet.

Ms Nooyi inherits a firm in good shape, but with some problems. For one thing, there is serious trouble in her native India, where activists have accused both PepsiCo's and Coke's colas of containing high levels of pesticides. In the future, PepsiCo will need new sources of growth, especially given slowing momentum from the Quaker acquisition, which propelled the firm into the booming healthier-foods market. The company will have to look for acquisitions to fill in gaps in its international distribution system, and to add new products. There is general agreement in the business world that Ms Nooyi was the best candidate for the job. It is a sign of progress that she got it.

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Exploding batteries

Too hot to handle

Aug 17th 2006
From The Economist print edition

Dell's battery recall reveals the technology industry's vulnerabilities

theinquirer.net

Where's the firewall?

THERE is the nail test, in which a team of engineers drives a large metal nail through a battery cell to see if it explodes. In another trial, laboratory technicians bake the batteries in an oven to simulate the effects of a digital device left in a closed car on a sweltering day—to check the reaction of the chemicals inside. On production runs, random batches of batteries are tested for temperature, efficiency, energy density and output.

But the rigorous processes that go into making sophisticated, rechargeable batteries—the heart of billions of electronic gadgets around the world—were not enough. On August 14th Dell, a computer company, said it would replace 4.1m lithium-ion batteries made by Sony, a consumer-electronics firm, in laptop computers sold between 2004 and last month. A handful of customers had reported the batteries overheating, catching fire and even exploding—including one celebrated case at a conference this year in Japan, which was captured on film and passed around the internet. The cost to the two companies is expected to be between $200m and $400m.

In some ways, Dell is a victim of its success. The company was a pioneer in turning the personal computer into a commodity, which meant squeezing suppliers to the last penny, using economies of scale by placing huge orders, and running efficient supply chains with little room for error. It all created a volatile environment in which mistakes can have grave effects.

Since lithium-ion batteries were introduced in 1991, their capacity to overheat and burst into flame has been well known. Indeed, in 2004 America banned them as cargo on passenger planes, as a fire hazard. But the latest problems seem to have arisen because of the manufacturing process, which demands perfection. “If there is even a nano-sized particle of dust, a small metal shard or water condensation that gets into the battery cell, it can overheat and explode,” says Sara Bradford of Frost & Sullivan, a consultancy. As the energy needs of devices have grown rapidly, so have the demands on batteries.

The computing industry's culture is also partly to blame. Firms have long tried to ship products as fast as they possibly can, and they may have set less store by quality. They used to mock the telecoms industry's ethos of “five-nines”—99.999% reliability—because it meant long product cycles. But now they are gradually accepting it as a benchmark. That is partly why Microsoft has taken so long to perfect its new operating system, Windows Vista.

Compared with other product crises, from contaminated Coca-Cola in 1999 to Firestone's faulty tyres in 2000, Dell can be complimented for quickly taking charge of a hot situation. The firm says there were only six incidents of laptops overheating in America since December 2005—but the internet created a conflagration.

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Pharmaceuticals

Heartburn

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The battle over generic drugs heats up

Get article background

BIG pharmaceuticals firms have never much liked Canada. The country's socialised medical system is less profitable for them than the American market, and "grey market" shipments of branded drugs from Canada have undercut the fat margins they are used to across the border. But those are minor irritants compared with the extraordinary blow delivered this month to two pharmaceutical giants by Apotex, a rising drugs star of the north.

France's Sanofi-Aventis and America's Bristol-Myers Squibb (BMS) jointly market Plavix, a drug that inhibits blood platelets from sticking together to form clots, thus helping to prevent heart attacks and strokes. With global sales of nearly $6 billion last year, it is the world's second-biggest-selling drug. The firms had expected to squeeze out billions more dollars, since their patent on Plavix lasts until 2012.

Then, to everyone's shock, Apotex launched a generic version of the drug last week, undercutting the branded version's price. On August 14th Sanofi and BMS filed legal papers demanding a halt to the shipments. A hearing on the matter is due to begin in New York on August 18th.

A big part of the row is the audacity of Bernard Sherman, Apotex's clever and combative boss. Undaunted by Sanofi's patents, his firm simply went ahead with a generic version of Plavix. Apotex is gambling that the Plavix patent is vulnerable and that it cannot be enforced—as has sometimes happened with previous patents. Earlier, Sanofi and BMS tried to negotiate, presumably fearing Apotex might be right. They struck a deal with Mr Sherman to delay the launch of his generic version until 2011, in return for a financial pay-off and the promise that the giants would not compete with Apotex by launching their own "authorised" generic. Viren Mehta, an industry expert, calls that deal a "capitulation to Apotex—every paragraph, every sentence is an outrageous series of concessions." But the deal fell foul of state attorneys-general, who scuppered the pact. Federal officials have now opened a criminal investigation.

Apotex's assault on Plavix may be the largest-ever generics launch, but it comes against a promising backdrop for generics. IMS Health, a consultancy, estimates that generic drugs are worth nearly $60 billion. Because they are much cheaper than branded drugs, their market share by value is small today (perhaps 13% of the global drugs market) but they already make up well over half of sales in America and Britain when measured by volume. Generic sales are growing at double-digit rates, twice as fast as the overall market.

One reason is a push by governments to contain health-care costs, which creates demand, but a bigger one is the coming wave of drugs going "off-patent". By 2009, 12 of the top 35 drugs today will lose their patent protection. Mr Mehta estimates that 28% of the global drugs industry's sales of $307 billion will be exposed to generic challenge in America alone, due to drugs going off-patent in the next five years.

In response, big pharmaceutical firms are starting to launch their own generic brands. Merck, for instance, has joined hands with Dr Reddy's Laboratories, an Indian firm, to produce generic versions of its cholesterol-reducing drug, Zocor. Pfizer plans to do the same with Zoloft, its popular anti-depressant, through its Greenstone generics subsidiary.

Another new tactic is pricing. Firms used not to cut the price of their branded drugs much when faced with generic competition. Now, they are rushing to do so. Before the launch of a generic this year, Merck, for instance, slashed the price of Zocor to a level so low that Senator Charles Schumer accused the firm

of predatory pricing, demanding an investigation: “It's a desperate move to keep prices high and generics out of the market,” he said.

Plavix's legal prospects are unclear, but the financial picture is not. This week Sanofi and BMS were reported to be undercutting Apotex's generic with the price of branded Plavix. As Mr Mehta puts it, “this is a lose-lose proposition for them.”

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Uranium

Glowing

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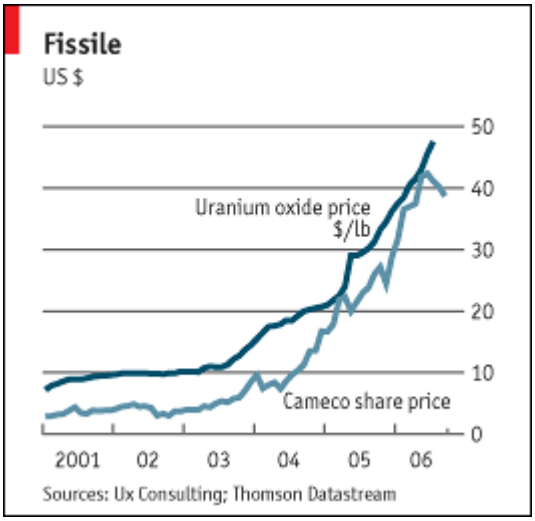
As the price of uranium rises, ever more firms seek to cash in on it



CALL it a boom within a boom. The prices of various metals continue to set new records: on August 16th, for example, a tonne of nickel traded for more than $29,000. Mining firms, meanwhile, are as sought-after as the stuff they produce: this week, Xstrata, a Swiss mining group, won a battle to buy Falconbridge, a Canadian one, while CVRD, a Brazilian firm, became the third bidder for Inco, Falconbridge's former suitor. Yet even by these standards, uranium and the firms that dig it up are hot commodities.

The price of uranium oxide, from which fuel for nuclear power plants is made, has risen from $7.25 a pound in 2001 to $47.25—a record in nominal terms. In the same period, the shares of Cameco, the Canadian firm that is the world's biggest producer of uranium, have risen from less than $3 to over $38 (see chart).

In part, the rise simply reflects the cyclical nature of most commodities. But the changing fortunes of nuclear power have accentuated the ups and downs for uranium. In the 1970s miners expanded their output, and generating firms built up stocks of fuel, in anticipation of a steady expansion of nuclear power. But after nuclear accidents at Three Mile Island in America in 1979 and at Chernobyl in the Soviet Union in 1986, nuclear power fell out of favour. The end of the cold war made matters worse for miners: America and Russia began converting enriched uranium from decommissioned nuclear weapons into fuel, adding to supply just as demand was ebbing. The price of uranium duly tumbled, and lots of mines closed.

Nowadays, barely half of the uranium needed to run the world's nuclear power plants comes from mines. Existing stocks, former nukes and reprocessed fuel provide the rest. But these secondary supplies are beginning to run low. Demand, meanwhile, is rising—27 new nuclear plants are under construction, to add to the 442 already operating, according to the International Atomic Energy Agency, the United Nations' nuclear watchdog. Many countries are planning to build more, or are at least contemplating the idea. Moreover, since nuclear plants are cheap to operate but expensive to mothball, they are often run at full tilt even when demand for power slackens.

Unearthing more uranium is expensive and time-consuming. Equipment and engineers are in desperately short supply for all mining projects at the moment. In many countries planning restrictions have become more onerous since uranium's heyday in the 1970s. Australia, for one, has the world's biggest reserves, but only three mines. The country's federal government recently decided to drop its long-standing ban on new mines, but state governments have yet to follow suit.

Those obstacles have not deterred several new firms that hope to strike it rich with uranium. Andrew Ferguson, who manages Geiger Counter, a nuclear investment fund, reckons that more than 200 uranium-mining firms have listed on stockmarkets around the world in the past 18 months. Geiger Counter itself listed on the London Stock Exchange (LSE) last month. A Canadian-based firm with mines in Kazakhstan, UrAsia Energy, will join the LSE's Alternative Investment Market (AIM) later this month. Unlike other commodities, uranium itself does not trade on any exchanges. But earlier this year, Nufcor Uranium, a firm that simply stockpiles uranium, also listed on AIM, allowing investors to bet on the price, rather than on specific mining projects. Shares in another such firm, Uranium Participation Corporation,

have risen by more than half since their listing in Toronto last year.

Most of these start-ups, however, do not have any uranium in hand—just plans to look for it. John Wilson, of Resource Capital Research, says it takes at least five years to develop new mines once the stuff is found. By then, analysts guess, the price will have fallen back a bit, along with some of the wilder share valuations.

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Tourism in Italy

Below Tuscany

Aug 17th 2006 | REGGIO CALABRIA
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Italy's south is missing the tourist boat

OCCASIONALLY, German tourists stop at the museum and archaeological site at Locri Epizefiri in Calabria, one of the most important ancient Greek settlements by the Ionian Sea. But most of the time, foreign tourists pass by Italy's deep south, to the consternation of local businesses and governments.

Italy's *mezzogiorno*, as the country's south is known, is far away and hard to reach. But sadly it does not have the accompanying advantage of being less spoilt than other parts of Europe. In a recent report on the south's economy, Svimez, a think-tank which specialises in southern issues, notes that tourism there suffers all the nuisance of intensive development seen in other Mediterranean countries, but without the benefits. There are few concrete monsters, but coasts have been ruined by unregulated ribbon development, which puts off tourists. Elsewhere, at least, says Svimez, mega-structures attracted foreign capital and created real industries.

There are bright spots. Some stretches of coast, like the few kilometres of citrus groves and clear sea around Cape Spartivento in southern Calabria, are unspoilt. So are the Amalfi riviera, Capri and Ischia in Campania, although these get crowded. Naples and Pompeii have been favourites since the 18th century. Baroque Palermo and Sicily's Greek temples at Segesta, Selinunte and Agrigento are increasingly popular. Indeed, Campania and Sicily together attract more than one half of foreign visitors to the south. But the tourism in the *mezzogiorno* is feeble. Less than one third of the 17m or so people who visit each year are foreigners, compared with a half of visitors to central and northern Italy. Svimez's report says that the south earned $4.2 billion from foreign tourists in 2003, compared with $10.8 billion for Greece, $10.6 billion for Turkey and $30.5 billion for Spain.

Closing the gap will be hard. Local authorities have promoted the south in a fragmented and half-hearted way, and politicians have failed to protect the environment. Infrastructure is inadequate—and not just roads and railways; water in the centre of Reggio Calabria, Calabria's largest city, is brackish and unsuitable even for washing. Svimez warns that competition for foreign tourists will get more intense, and not only from Italy's Mediterranean neighbours. Increasingly the *mezzogiorno* is fighting for trade with more distant destinations that tempt visitors with not only sun and sand, but exoticism, too.

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Gambling in Europe

Stacking the deck

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Private betting firms are fighting against state monopolies

AT MURAT's modest betting shop in northern Frankfurt, a single internet screen shows the odds on German and Turkish league football matches. Mr Murat takes his customers' bets and relays them to Happybet, a firm in Austria. Pasted on the walls are lots of warnings and helpful advice about gambling addiction.

Strictly speaking, Murat's betting facility, which doubles as a café, is illegal, and he may be ordered to shut it down this week. In Germany, as in many other European countries, people may bet on sports only through state monopolies for gambling. But as a body, European law on the subject is confused and self-contradictory. The European Commission is slowly trying to devise a consistent new policy, but it has conflicting motives—it wants an open market, but not to go too far in encouraging gambling.

Meanwhile, gaming is ever more popular across Europe, and new services on the internet and television are growing especially quickly. A study for the European Commission, by the Swiss Institute of Comparative Law, finds few hard figures but estimates that on average in 2003 countries in the European Union spent 0.52% of their GDP on gambling, compared with 0.69% for America.

In March Germany's Federal Constitutional Court ruled that a state monopoly on sport betting is acceptable—provided that its objective is to limit addiction. But the popularity of gambling on the internet, and a handful of East German licences granted in 1990, have provided private operators with loopholes that regional governments have been trying to stop up.

Last week, for instance, the state of Saxony moved against Bwin, an Austrian betting firm with a grandfathered East German licence. Saxony warned Bwin that the licence allows it to operate a single betting shop in Neugersdorf, but not a nationwide online network. Bwin's shares on Vienna's stock exchange plunged as a result of the government's action. This week the state of Hesse is attempting to close 80 betting shops in Frankfurt; Bavaria closed 41 betting shops in Munich last week. Other states are expected to move against the multitude of agents—including part-timers such as bakeries, corner shops and even tax advisers—who offer their customers a convenient opportunity to punt.

In February Italy abruptly blocked access to 684 betting websites. According to those affected, this violates article 49 of the Treaty of Rome (on cross-border services) as well as EU telecommunications agreements. Malta, an EU member state that makes a fortune from licensed gambling, has running battles with Italy and with France. Last year France's monopoly for horse-race betting, PMU, successfully sued Zeturf, which offers betting on the races from Malta. But Zeturf is still open for business. On its side is a 2003 ruling from the European Court of Justice that laid down criteria for state monopolies for betting—they must have a policy to limit gambling abuse, for instance. Neither France nor Italy obeys all the rules.

In Britain, the most liberal big EU country—where regulated private betting is allowed—operators are longing to expand elsewhere in the EU and are pressing for changes to the law. In the meantime they do what they can, basing themselves in the more liberal states, and brushing with the law in others. “It's like guerrilla warfare,” says Adrian Morris, the finance director of Stanleybet, a British operator.

What hope of help from the European Commission? Lobbyists expect European laws eventually to be harmonised in favour of private gambling. But rapid change is unlikely. To the disappointment of pro-gaming lobbyists, the commission did not include gambling in its Services Directive (which would have given gambling firms in the EU the right to set up shop in other member states).

This April, nonetheless, the commission sent warning letters to seven EU countries asking them to justify state monopolies that do not seem to be acting in the public interest. The Swedish monopoly, for instance, recently launched its own online poker game: an astute commercial move, to be sure, but hardly the most obvious way to curb gambling addiction.

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Face value

Communicating the Skype way

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Sten Tamkivi, the Estonian manager of Skype, is helping to change the face of telephony

Skype

LIKE most people doing important jobs in Estonia, Sten Tamkivi is alarmingly young. He is 28—practically a greybeard in a country that once had a 27-year-old foreign minister. And like many Estonians, he is reticent and modest. Asked for his job title, he looks apologetic. “I think I am director of operations,” he says. “We're not that big on titles.” Most people in his shoes would be boasting. Mr Tamkivi runs Skype, one of the software world's most subversive and fastest-growing businesses.

Founded by a Swede, Niklas Zennström, a Dane, Janus Friis, and a group of Estonian programmers, Skype's proprietary, voice-over-internet-protocol (VOIP) software allows its 113m registered users to call each other free of charge. The company makes money, on the other hand, when its customers place calls to traditional telephones—but these are still extremely cheap. Skype and other VOIP companies threaten to undermine incumbent operators' pricing structures and gradually to wipe out the traditional, high-margin telephone business.

Late last year, Skype's founders sold their share in the business to eBay, an auction and trading website based in California, for $2.5 billion, plus another $1.5 billion if Skype hits certain performance targets. Meg Whitman, chief executive of eBay, recently said that she expects Skype to bring in revenues of $200m in 2006 (though the firm is not yet profitable). Mr Zennström is Skype's chief executive and its public face, but he leaves day-to-day operations and developing the firm's software to Mr Tamkivi and his team, and Skype's research and development division is based in Estonia.

Like its product, the company's culture seems to be based on long-distance communication. Indeed, the most important internal business tool is Skype itself, particularly its instant-messaging system, Skype Chat. Its first advantage, says Mr Tamkivi, is “presence data”. You can signal whether you are out, busy, reachable elsewhere or free—and all your colleagues can see. An unanswered e-mail, by comparison, tells you almost nothing. If required, you can add a video-conference or phone call at the click of a mouse. Of particular value is the fact that Skype chats are not only encrypted but work only between people who trust each other—the best possible defence against spam. And chats allow lots of people—

sometimes 50 Skype staff, Mr Tamkivi says—to communicate with each other, “for minutes or for years”. The chat history is instantly accessible to all participants: “try to achieve that with a long e-mail thread,” he says.

Here is a snatch of Skype chat where Mr Tamkivi and two colleagues are discussing a future presentation:

> 13:37:48 Alex Kazim says: Ott, especially need you to look at the slide where I try to explain how VOIP works. This is like me trying to explain quantum
>
> 13:41:28 Sten Tamkivi says: try the electron: VOIP can be viewed as a particle or wave at any point in time.
>
> 13:41:57 Alex Kazim says: hehe
>
> 13:42:41 Sten Tamkivi says: for added abstraction and analyst awe, describe it as a thought or a smell
>
> 13:45:03 Alex Kazim says: it's a state of mind. A veritable Tao of VOIP
>
> 13:46:07 Ott in Tallinn says: uh, you're not holding back :) by the way—according to our brandbook—Words we do not like—VOIP, Internet Telephony etc :)
>
> 13:47:03 Sten Tamkivi says: according to the same book, words we do like: share, baboon...

It is hard to imagine such informality (or healthy dislike of jargon) surviving in many boardrooms. Skype's programmers—there are around 150 of them in total, from all corners of the world, with an average age of just under 28—are a formidable bunch, but the company tries hard to seem as ungeeky as possible to its users. Skypenauts like Mr Tamkivi don't want their ingenious software to be technically fascinating—they don't even release the source code. They just want it to be very easy to use.

And it is. The people who police company networks, indeed, worry that their computers and bandwidth are being hijacked into handling Skype's calls. Like Google's Gmail, a powerful and well designed e-mail service that people often prefer to their company's own system (to the chagrin of IT managers), Skype may prove too attractive to squash. Mr Tamkivi's next big project is to move Skype beyond computers, onto gadgets that people carry in their pockets. The first Skype-capable mobile phones have come on the market; some handheld computers run it too. Another plan is to have Skype on a memory stick.

The man and his machines

Mr Tamkivi founded his first software business at the age of 18, and he dropped out of university after a year—he says he still wishes he had a better grasp of economics. Although born in a country occupied by the Soviet Union, he barely remembers communism; it was already collapsing when he was 10. He is determined that Estonia, which is already a power in European information technology (albeit a tiny one) should make a success of capitalism. He has spoken out repeatedly against the government's xenophobic visa rules, which make it hard to hire programmers from India and China. And he wants to get the education system to sponsor foreign academics to teach computer-related disciplines at Estonia's universities. The country's programming talent pool is heavily over-fished, not just by Skype but by other software companies that appreciate its nonhierarchical, open-minded and direct business environment.

Mr Tamkivi wants to preserve Skype's original culture as the company grows under eBay's wing. Estonian companies have done well elsewhere in the Baltic states, but no Estonian-run firm has ever been as international in its staff, outlook and activities. It is not surprising, perhaps, that Mr Tamkivi's Skype chat status is so often set to “do not disturb”.

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Amazon.com

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Aug 17th 2006
From The Economist print edition

Having taught the world how to shop online, Amazon.com now finds the world shopping elsewhere on the internet. It is time to become a pioneer again

Get article background

IN HIS most recent annual report, Jeff Bezos, the founder and chief executive of Amazon.com, reprints his letter to shareholders of 1997. “It's all about the long term,” he wrote then. The point he is making today is that nothing has changed: the pioneer of online retailing is still having to place big bets on the future, cutting into profit margins and unnerving some investors. Having established the internet as somewhere to buy things, Amazon is again spending heavily on development in anticipation of consumers wanting to download music, video and books instead of having them delivered in the post.

Amazon is highly secretive about its plans, but the online industry expects it soon to launch a service for downloading films and television shows. Amazon's investment in new technology and services helped slash net profit by 58% to $22m in its second quarter, compared with the same period a year earlier. This is despite a 22% increase in sales, which are expected to reach $10.6 billion for 2006 as a whole.

Boosting sales has been costly for Amazon, which appeared on the internet in July 1995 selling books. It has pumped money into discounted shipping and diversifying its merchandise away from books, to create what Mr Bezos likes to describe as “Earth's biggest selection”. Not just music and video discs have been added, but also consumer electronics, jewellery, clothing and, most recently, groceries (largely non-perishable packs of items).

Amazon's product range is expanding in much the same way as online sales are. As people become more accustomed to shopping on the internet, they are ordering a greater variety of goods and services from a wider range of websites. In America online sales were up by 25% in 2005 over the previous year, reckons Forrester, a research company. Travel is now by far the biggest category, worth some $63 billion last year, followed by computer equipment and software ($14 billion), cars ($13 billion), clothing ($11 billion) and home furnishings ($8 billion).

Amazon's challengers come from two directions. First, other online retailers are growing rapidly and appear in various forms. Many of the dotcoms are invading each others' turf. From auctioning people's old stuff, eBay now also hosts fixed-priced virtual shops offering new goods for sale. And Google is adding more shopping-type services, such as Froogle, a shopping-comparison service, and more recently its new Checkout payments system, which rivals eBay's PayPal.

Second, traditional retailers are rapidly getting their online acts together. This pits Amazon against giant retailers with huge purchasing power, like America's Wal-Mart and Britain's Tesco. These “multichannel” retailers make a virtue of their ability to offer both “bricks and clicks”. Many provide online customers with the option of picking up goods from the shop down the road. This is proving popular with web buyers who want things immediately or are keen to avoid shipping costs and staying in to accept a delivery. Circuit City, a big American electricals chain, expects in-store pick-ups to account for more than half its online sales this year.

Mr Bezos saw these threats coming and prepared for them. The internet provides consumers with near perfect product and price visibility. It does not take many clicks of a mouse to compare Amazon's prices. Mr Bezos decided there was no point trying to duck this and in 2000 invited other retailers to sell their goods on his website.

Many people, even some within the company, thought this would cannibalise Amazon's own sales. Yet as with many consumer innovations, Mr Bezos has said there was no way to know if the strategy would work other than to experiment.

It did help to lift overall sales. Amazon says sales of third-party items, from which it takes a commission, have increased from 6% of all items sold in 2000 to 28% in 2005. Over that time, the company says its own retail revenues were up three-fold.

Amazon also runs the websites of other retailers, such as Target and Borders. Not all these arrangements are successful. Amazon used to have a joint webstore with Toys “R” Us, but earlier this year a court ruled that Toys “R” Us could end the deal because Amazon had breached an exclusivity agreement by allowing other merchants to sell their toys on the site.

Having other retailers competing with you so openly puts Amazon under pressure to make sure that it has the lowest prices. This can cut into margins, but the company hopes the payback will come from customers who want to buy something from a third party also acquiring goods that Amazon itself is selling.

To encourage this, Amazon provides the same checkout for both third-party sales and its own purchases. It also puts plenty of temptation in customers' way by recommending purchases. These are based on what other customers who have chosen the same product have bought and the buyer's own previous purchases. On August 10th Amazon expanded this with the launch of “Search Suggestions”, in which customers, sellers, authors and other users can make recommendations that are linked to search keywords.

Getting things quickly and cheaply to customers can be expensive. Amazon often subsidises shipping costs through special deals. The main one is Amazon Prime. In return for a fee of $79 a year, the company provides members of the programme with unlimited express shipping on most goods.

Movies to go

By building its brand and expanding its offerings, Amazon has done all the right things, says Safa Rashtchy, an analyst with Piper Jaffray, an investment bank. “Free shipping should not be taken lightly,” he adds. “It is a major marketing tactic for them.” But in the decade ahead, he wonders if Amazon will still be doing so well unless it can also offer delivery by download too. Mr Rashtchy thinks Amazon may have missed the boat with digital music, but could still have a chance to become a big online destination for digital video.

The battle for downloads is becoming more intense. The market for digital music is dominated by Apple's iTunes, which is also likely to expand into video. Microsoft is entering the music-download business with a digital player, called Zune. On August 8th Nokia bought an American digital-music distributor, Loudeye, to develop its own service for its music-enabled handsets. The Finnish telecoms-equipment company says these are now selling roughly twice as fast as Apple's iPods.

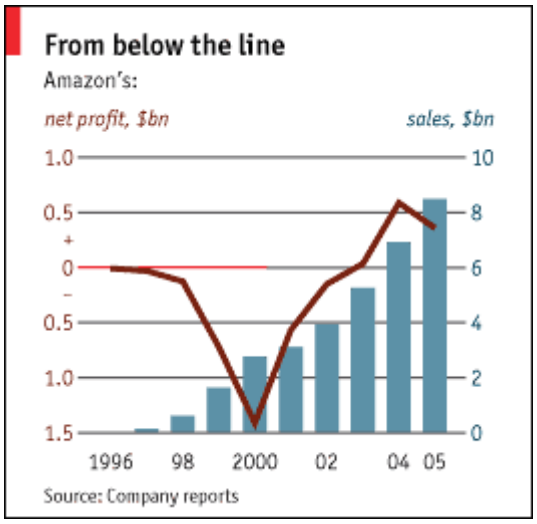
Video downloads are available online from some sites, such as Movielink.com, which is owned by five big film studios. News Corp's websites, including MySpace.com, are planning to sell films and shows from the group's Fox network.

Amazon does provide some digital downloads of music and video, although it is mainly promotional material. At heart the company remains primarily a purveyor of old-world media: some two-thirds of its sales are from books, CDs and DVDs. Whatever share of media ends up being downloaded, Amazon will miss out unless it introduces its own service. The one it is said to have in the pipeline has evolved in the past year from offering mostly music to concentrating more on films and television shows, according to *Advertising Age*. The trade publication says this is because Amazon's executives felt Apple's grip on the music market would be too difficult to break.

A video service could resemble a downloadable version of Netflix, a Californian company that pioneered online video rentals. Netflix's customers compile online lists of videos they want to see and receive them in the post. When the DVDs are returned in their pre-paid envelopes, the next titles are sent. With no late fees, Netflix has pummelled Blockbuster's store-based video-rental model.

Netflix is also exploring how to deliver movies online. Amazon has already copied the Netflix postal model in Britain and Germany and it has dropped hints that it may launch a postal service in America: Mr Bezos told *Wired* magazine last year that Amazon was well placed to do so "...and we wouldn't have to pay heavy marketing fees." The same could be said about video downloads. Although Mr Bezos has discussed his strategy in the past with *The Economist*, the company did not respond to requests for an interview.

How much media will move to online delivery is the subject of huge debate. Plenty of music is already delivered this way. Yet for three-quarters of internet users, CDs remain the most popular format for music, according to a big survey of the British music market by Nielsen//NetRatings. Internet users are more likely to buy music online, on average spending £59 ($107) a year downloading it. But the study found they also spend another £99 on CDs.



"The need to own music in a physical form, whether it's to play in other music systems, to minimise the chances of losing it or just because they like to have a physical collection, remains very strong amongst internet users," says Alex Burmaster, the research company's European internet analyst. The same will be true for video, which in digital form is cumbersome and takes longer to download. Broadband-equipped televisions and personal video recorders will make the process easier. Reluctance to read books on digital devices could be even stronger.

The great disintermediator

Yet digital downloads of all types of media will be demanded by some customers—perhaps too many to ignore. Amazon is already well placed to offer these, not least because of its high level of customer service. The company has been building up the capacity to store huge amounts of digital data: a subsidiary called Amazon S3 rents out temporary storage by the terabyte to other websites.

Some of this online equivalent to Amazon's physical warehouses is already being filled by digital copies of books. Another Amazon subsidiary, BookSurge, is busy courting publishers to have their works scanned into digital files. Modern printing techniques allow books to be printed relatively cheaply on demand, "whether it's one copy or one thousand", Greg Greeley, head of media products at Amazon, said when BookSurge was acquired last April.

On-demand printing is particularly suited to lower-volume books and those that would ordinarily be "out of print". Amazon already sells print-on-demand books, although that is "invisible" to consumers, Mr Bezos has said, because they look exactly like any other books.

Just as music and videos could be offered with the option of buying a downloadable version, so too could books. Many people are sceptical, yet devices for reading digital books and documents are rapidly improving. A new "e-reader" device from Sony has a special screen that mimics the way light falls on a printed page. The size of a paperback, it can store several hundred novels.

In a statement, Mr Bezos says he is "looking forward" to a slowdown in the company's rate of growth in technology spending later this year. That will cheer Amazon's patient investors. In the past year its share

price has underperformed the NASDAQ. Unless the pioneer of online retailing can provide downloadable media it risks being “disintermediated”—rather as only a decade ago high-street bookshops, music and video stores were disintermediated by Amazon itself.

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Private banking

Rich pickings

Aug 17th 2006 | NEW YORK AND PARIS
From The Economist print edition

The rich are getting richer. So are the bankers serving them

ON THE 11th and 12th floors of JPMorgan Chase's private bank, overlooking Manhattan's Park Avenue, David Rockefeller keeps part of his private collection of modern art. Andy Warhol's Marilyn Monroe paintings hang on the walls; the gun fired by Aaron Burr that killed Alexander Hamilton sits behind a glass case next to *objets d'art* from Africa. Here, the private bank has its meeting rooms, into which only the most treasured of its clients are invited. Those that are receive white-gloved treatment from bankers who might otherwise be considered elite themselves. The private bankers aim to please: be that offering tricky investment advice to clients, or "summer reading" tips—this year's includes Elizabeth Kolbert on climate change. The attention pays off. From San Francisco to Shanghai, Switzerland to Singapore, the merely rich are becoming super-rich. Private banking is in bloom.

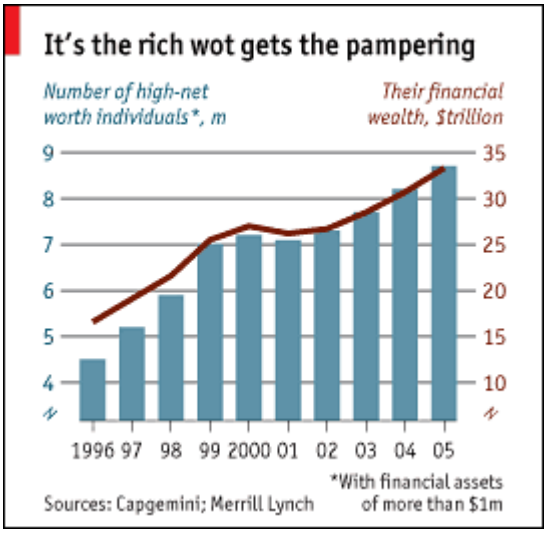
That was one reason UBS, a Swiss bank, announced a rise of almost 50% in second-quarter earnings on August 15th. The world's largest private bank by profits took SFr31.2 billion ($25.2 billion) in net new money from rich clients in the quarter, a 12% annualised growth rate. Credit Suisse, another Swiss bank, has also reported record inflows of private-banking money, and is expanding in the Middle East and Singapore (see article). Other big international banks, including JPMorgan Chase and HSBC, are investing heavily in wealth management. Goldman Sachs, which attracts most attention for its success in the grubbier world of trading, has muscled in, growing fast in Europe and Asia. In Europe it is planning more than to double its numbers by hiring several hundred private bankers over the next five years—wooing very rich clients with €10m ($13m) or more to invest.

One reason for the excitement is an increase in the number of plutocrats. According to the World Wealth Report published annually by Capgemini, a consultancy, and Merrill Lynch, a bank, the number of "high net-worth" individuals—those with over $1m in financial assets—grew 20% in the past five years (see chart).

Many of those come from emerging economies such as China, India and the Middle East, and particularly in America and Asia are more likely to be self-made millionaires (or billionaires),

rather than inheritors of wealth. Their ways of dealing with money are entrepreneurial as well. Rather than parking it in bonds and property, they are increasingly likely to want it actively managed. For that, they face a panoply of new (and volatile) investment opportunities, from hedge funds and private equity to derivatives and currencies.

More assets to look after mean more management fees for the banks, and these are the sort of stable, recurring fees that shareholders covet. Christopher Wheeler, of Bear Stearns, points out that UBS and Merrill Lynch—which both derive a third or more of their pre-tax profits from wealth management—trade at around 11 times 2007 earnings, a premium rating. Mr Wheeler reckons private banking is the fastest-growing area of financial services, with a compound annual growth rate of 24% between 2002 and 2005.



Predictably, the big banks argue that size helps: they can offer global networks to cater to their peripatetic clients, as well as more products. Bruce Holley, of Boston Consulting Group, thinks the benefits of scale are probably overstated. Today, all private banks operate an "open-architecture" model, meaning, in theory, that they invest their customer's cash in the best assets available—whether they sell them or rival banks do.

Whatever the merits of size, consolidation appears inevitable. According to Bear Stearns, the top ten private banks hold less than a fifth of the market. UBS, for all its clout, has only 3%. In Switzerland alone, there are 350 private banks. Ray Soudah at MilleniumAssociates, a Swiss investment-banking boutique, reckons that in the next 24 months, many will merge or be taken over. In the past year, some already have.

For banks going down market where the biggest numbers are, the trick will be building scale without losing the personal touch. The skill is not just about knowing the names of clients' favourite grandchildren. Increasingly, it is about financial sophistication. For example, Capgemini and Merrill Lynch note that alternative investments accounted for 20% of total assets in 2005, compared with less than 10% in 2002. Growth has come at the expense of trusted old-money preserves, such as property and fixed income.

It is an open question whether or not these new investments will help spread risk for the wealthy (in the stockmarket sell-offs of May and June, they did not: hedge funds as a whole performed poorly). But they are a sure bet for the private banks. As well as the management fees, sometimes there are trading fees and the more fancy the investment strategy, the more such revenues roll in.

But the money is not going all one way. For some, the future is clouded. Switzerland, which the old tradition of bank secrecy turned into a home for one-third of the world's offshore private-banking assets, cannot afford to rest on its laurels. Doug Grip, international head of private wealth management at Goldman Sachs, thinks tax harmonisation in the European Union, for example, means more citizens are bringing money onshore, suggesting that bank secrecy is not as important as it was in the past.

In the end, a bigger danger is that the industry becomes a victim of its own success. As banks scent fat, stable profits, more will move into the business. By definition, however, private banking is not a mass market and margins could shrink. Already, emerging centres such as Singapore and Dubai are chipping away at fees.

On the other hand, the growth of the industry—and the impression that it is becoming more a game of financial sophistication than secrecy—is making it more respectable. As long as the rich get richer, the best private banks will, too.

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Private banking in Singapore

A new treasure island

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Singapore is a small but growing rival to the Swiss

THERE is no dark-wood panelling in Credit Suisse's private-banking branch in Singapore and not many middle-aged European expats in pinstripes. It is all modern and open-plan, and the typical private banker is an Asian woman in her thirties—quite unlike back home in Zurich. But the untraditional atmosphere is hardly discouraging the prosperous clients of Singapore's booming private banks. The private wealth managed there may grow by perhaps 25% this year, reckons Credit Suisse's head of private banking for South-East Asia and Australasia, Didier von Daeniken. Booming Asian economies are creating lots of new millionaires.

The island-state's central bank, the Monetary Authority of Singapore (MAS), reckons there are now around $200 billion of private-banking assets being managed there. This is but a fraction of the trillions of dollars looked after by Swiss private bankers. But there is still plenty of room for growth, given the low penetration of private banking, says Justin Ong, head of wealth management at PricewaterhouseCoopers, a consultancy, in Singapore.

The island has plenty of its own millionaires to service. But money is also pouring in from neighbouring countries such as Indonesia, the Philippines and Malaysia, especially from the well-off “non-resident Indians” scattered across the region. Some private banks see Singapore as a springboard to India itself and are sending bankers to woo rich clients there.

The infuriatingly well-organised Singaporeans have been assiduously developing and promoting their island as an offshore financial-services base in the past few years, and are now reaping the fruits of their hard work. A private banker who moved there from Dubai says Singapore has the better regulatory environment and legal system.

To ensure they have enough qualified staff to serve the growing numbers of Asian plutocrats, the Singaporeans have even created a sort of “private bankers' charm school”: at the Wealth Management Institute they learn about everything from financial derivatives to social etiquette—or as the prospectus puts it, to “strengthen personal skills in handling demanding high-net-worth individuals both in business and in social settings”. Easier said than done.

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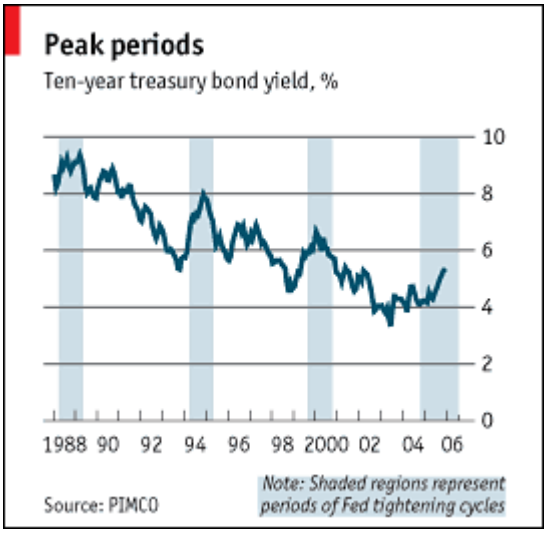
American government bonds

The bond-market bounce

Aug 17th 2006
From The Economist print edition

American Treasuries gain a new following



IT IS turning out to be a good month for America's bond market, and one or two of its most hoary gurus must be patting themselves on the back. A pause in the Federal Reserve's tightening cycle, after increases in 17 consecutive meetings, began to excite the market, sending Treasury prices higher and yields lower. Then came July's wholesale and retail inflation numbers, including a 0.2% increase in the closely watched core consumer-price index (CPI), the lowest for five months. Immediately after the data on August 16th, yields on ten-year Treasuries fell to a four-month low of 4.87%.

Is this the great bond-market comeback, after more than two years of sluggish performance as the Fed raised short-term interest rates by a total of 4.25 percentage points? This month, Bill Gross, the widely followed head of PIMCO, a big American fixed-income asset manager, declared the end of the bond bear market, pointing out that a slowdown in the economy usually means a peak in bond yields. A cooling in the housing market—the lifeblood of consumer confidence in recent years—provides some of the most compelling evidence of the drop in economic activity. He adds that the bond market is moved by reaction as well as action. Even the anticipation of the end of monetary tightening has tended to give it a boost (see chart).

Mr Gross is not alone in detecting a change in the mood. “Housing is the main swing factor,” says Jan Hatzius, an economist at Goldman Sachs. “If I had to be bearish or bullish, I'd be bullish.” Goldman predicts that yields on ten-year notes will fall to 4.5% in the next year, as growth slows and the Fed considers cutting interest rates in 2007. Fund managers may also be changing their tune. The latest poll by Merrill Lynch, an investment bank, showed that just 22% of fund managers found the global bond market overvalued in August, compared with 48% in May. Inflation was still a big concern, however. For 27%, it was their main worry. One third were most concerned by slowing growth.

Though the bond market reacted well to the July inflation numbers, the data left room for doubt and are unlikely, by themselves, to determine the bond market's future. After all, producer prices were kept in check by a sharp fall in car prices—a reflection of heavy discounting, which may be temporary. The CPI numbers were partly depressed by a one-time seasonal drop in clothing prices. Year-over-year core consumer prices, which exclude food and energy, rose to a 4½-year high.

There is also uncertainty about the severity of the economic slowdown. Home construction in America dropped to a two-year low in July, as sales slowed and inventories rose in the face of higher mortgage rates. Increases in house prices have also been moderating in some parts of America. On the other hand, productivity, consumer wages and spending have remained steady.

Although the bond-market bulls put a slowdown in the housing market at the centre of their arguments for determining whether or not the Fed ends its tightening cycle, others believe it is not as clear cut. “The housing-dependency argument is a bit misguided,” says Tim Bond, of Barclays Capital. Australia and Britain both experienced housing bubbles, he notes, but the slowdown in spending was not as drastic as expected when the markets turned. He believes the relationship between home values and spending is not straightforward, arguing that it is too soon for a cyclical bond-market rally to begin and that a secular, or long-term, rally is unlikely. Ultimately, he believes only the Fed can determine the outcome.

It is just possible that the Fed, which assumes annualised economic growth of 3.25-3.5%, may manage to steer the economy through a course of gently slowing growth and moderating inflation, without driving America into recession. Some believe it will take more than that for the bond market to take off. “In order to get a bull market across [all maturities of bond], you would need definitive slowing of economic growth and signs that there is no inflation,” says Joseph Shatz, a bond strategist at Merrill Lynch.

One thing that is for sure, the American market is likely to be a safer haven for fixed-income investors than Europe or Japan. The Fed is near the peak of the tightening cycle, if it is not there already, but the central banks of the two other regions possibly taking up the reins of global growth are only just hitting their stride.

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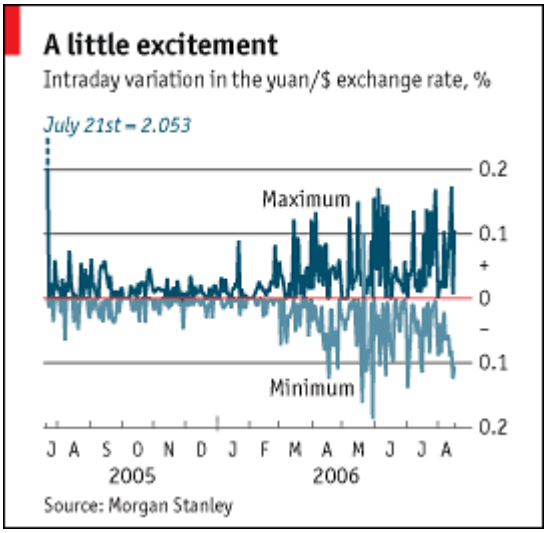
China's currency

Ups and downs

Aug 17th 2006
From The Economist print edition

Volatility, of sorts, creeps into the yuan-dollar exchange rate

IF THE euro, say, rises by 0.2% against the dollar, yen or Swiss franc one day and falls by almost as much the next, no one pays much attention. But such oscillations in the value of the yuan against the dollar are rare. The Chinese currency's 0.28% fall on August 15th was its biggest in a day since China revalued the yuan in July 2005. The next day it gained 0.24% at one point, before closing 0.16% up; only three times has it risen by more in a day.



These jumps have not come entirely out of the blue. Over the past few months, the yuan's exchange rate has been getting more volatile, by its own modest standards. Since February or March, notes Stephen Jen, of Morgan Stanley, the yuan's deviations from the average of bid and ask rates have become markedly larger (see chart), without ever testing the maximum permitted each day. (The rate is allowed to vary by 0.3% either side of a parity set daily by China's central bank.)

This being China, it is unlikely that the increase in volatility is entirely accidental. Simon Derrick, of the Bank of New York, thinks that remarks earlier this month by Wu Xiaoling, vice-governor of the central bank, now look “like a clear statement of intent”. Chinese firms, said Ms Wu, should hedge their currency risk using derivatives, as foreign companies do.

Another possibility is that the authorities may have wanted to show speculators as well as Chinese firms that the currency is not a one-way bet. And Mr Jen suggests that the yuan's fall on August 15th may have been intended to help state enterprises or banks with dollars to sell.

The big question, though, is whether extra variability heralds a faster overall rate of appreciation of the yuan—for instance, by letting it edge towards the top of its trading band more often. From 8.11 to the dollar after revaluation, it has risen only to around 8.00. A stronger yuan may be in China's interest, by helping to cool its boiling economy. However, the Chinese are in no hurry—especially, perhaps, when being pressed by American politicians to go much faster. It may be pure coincidence that the yuan's biggest fall came just after Henry Paulson, the American treasury secretary, said that the Chinese needed “to show much more flexibility” on the currency. Then again, it may not be.

Reuters

The Americans are sure to keep up the pressure. Mr Paulson is due to visit China after the IMF meetings in Singapore next month. And Charles Schumer and Lindsay Graham, two senators, have said that they will revive a bill threatening tariffs of 27.5% on imports from China unless there are signs that it will give way over the yuan. The senators' bill is unlikely to find its way on to the statute book, but is a worrying sign all the same.

Some observers urge calm. China, says David Bloom, of HSBC, is moving towards a flexible currency; remember, he adds, that only in the late 1970s did Western countries become fully flexible and convertible. His bank puts weight on a recent statement by Fan Gang, an academic member of the central bank's monetary policy committee, that China could cope with an annual appreciation of 5%. That's slower than America would like—but about as fast as it can expect.

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World Bank

Keeping the faith

Aug 17th 2006
From The Economist print edition

Mixing religion and development raises soul-searching questions

WORLD Bank projects are usually free of words like “faith” and “soul.” Most of its missions speak the jargon of development: poverty reduction, aggregate growth and structural adjustments. But a small unit within the bank has been currying favour with religious groups, working to ease their suspicions and use their influence to further the bank's goals. In many developing countries, such groups have the best access to the people the bank is trying to help. The programme has existed for eight years, but this brainchild of the bank's previous president, James Wolfensohn, has spent the past year largely in limbo as his successor, Paul Wolfowitz, decides its future. Now, some religious leaders in the developing world are worried that the progress they have made with the bank may stall.

Reuters

Our Father, who art in Washington

That progress has not always been easy. The programme, named the Development Dialogue on Values and Ethics, faced controversy from the start. Just as religious groups have struggled to work with the bank, many people on the inside doubted if the bank should be delving into the divine. Critics argued that religion could be divisive and political. Some said religion clashes with the secular goals of modernisation.

Although the bank does not lend directly to religious groups, it works with them to provide health, educational and other benefits, and receives direct input from those on the ground in poor countries. Katherine Marshall, director of the bank's faith unit, argues that such groups are in an ideal position to educate people, move resources and keep an eye on corruption. They are organised distribution systems in otherwise chaotic places. The programme has had success getting evangelical groups to fight malaria in Mozambique, improve microcredit and water distribution in India, and educate people about AIDS in Africa. “We started from very different viewpoints. The World Bank is looking at the survival of a country, we look at the survival of a patient,” says Leonardo Palombi, of the Community of Sant'Egidio, an Italian church group that works in Africa.

Although the work continues, those involved in Mr Wolfensohn's former pet project now fret over its future. Some expect the faith unit to be transferred to an independent organisation also set up by Mr Wolfensohn, the World Faiths Development Dialogue, which will still maintain a link with the bank. Religious groups are hoping their voices will still be heard. “If we are going to make progress, faith institutions need to be involved. We believe religion has the ability to bring stability. It will be important for the bank to follow through,” says Agnes Abuom, of the World Council of Churches for Africa, based in Kenya.

Like religious groups, large institutions such as the bank can resist change. Economists and development experts are sometimes slow to believe in new ideas. One positive by-product of the initiative is that religious groups once wary of the bank's intentions are less suspicious. Ultimately, as long as both economists and evangelists aim to help the poor attain a better life on earth, differences in opinion about the life hereafter do not matter much.

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Microcredit in India

Microsharks

Aug 17th 2006 | HYDERABAD
From The Economist print edition

Rapid expansion of Indian microcredit leads to a turf war with the government

Get article background

MONEYLENDERS bad; microcredit good. That has been the common view about financial services in much of the Indian countryside. Traditional moneylenders charge extortionate interest rates to those in desperate need. Microcredit-providers, which are charities that lend tiny amounts to the poor without necessarily expecting to make a profit in return, are globally trendy and socially responsible. So it came as a shock earlier this year when the government of Andhra Pradesh, the Indian state where microcredit has spread fastest, accused some leading microfinance institutions (MFIs) of behaving no better than old-style usurers. The lenders say they are being defamed, in a row that raises questions about their future in the state.

The dispute centres on one poor rural district, Krishna. Some women were reported to have killed themselves because they could not repay the MFIs. In March a top government official in Krishna temporarily shut 50 branch offices of four MFIs, seized and destroyed their records and told their borrowers not to repay their loans. He accused the microfinance groups of charging exorbitant rates.

Udaia Kumar, who runs SHARE, one of the affected four, says that, in fact, its loans cost about 21.5% a year—not excessive, since its cost of funds is 11% a year, the administration of a portfolio of more than 800,000 small loans in Andhra Pradesh is expensive, and not all loans are repaid. It is also less than half the rate a moneylender would charge or what a poor borrower would end up paying for a bank loan. Even so, SHARE has since agreed to cut its rates by about four percentage points.

There had been abuses. Viswanatha Prasad of Bellwether, a fund that finances microcredit-providers, blames “indiscriminate expansion” (see chart). The MFIs were flush with money, partly because commercial banks saw them as a good vehicle for lending to rural areas. Some microcredit lenders were charging interest rates on the full amount of a loan, rather than the declining balance, and some borrowers were bullied and humiliated. Aggressive competition and a failure to share information meant some people were in hock to numerous lenders. That is what seems to have led to the suicides. Mr Kumar says SHARE's own average outstanding loan was only 4,000 rupees ($86).

The root of the dispute, he says, is competition between non-governmental MFIs and a subsidised microcredit scheme, financed by the state and central governments and the World Bank. According to the bank, some 30% of SHARE's clients overlap with government-supported “self-help groups”. Mathew Titus, of Sa-Dhan, an association of Indian microcredit institutions, sees the row as a “battle of ideas”—between the non-government sector and those ideologically opposed to its working with the poor.

The fear is that the state government will now try to regulate the lenders, perhaps by capping interest rates at levels that could put them out of business. Legally, this would be difficult. SHARE and the other big MFIs are regulated as “non-banking financial companies” by the central bank, the Reserve Bank.

Bellwether's Mr Prasad thinks the scandal could even have some positive consequences. The microcredit

groups will have to stamp out abuses, adhere to a code of conduct and recognise that they cannot ignore the government. For its part, the government will have to realise that the MFIs are a force to be reckoned with, and that their mission is not necessarily to exploit the poor.

It is not as if too much credit is available. There should be room for both private lenders and subsidised schemes for the very poor. There may even be room for the despised moneylenders, whose local knowledge and extensive business mean they cannot be ignored either. According to one survey, 30% of MFI clients in Krishna took loans from moneylenders. Nationwide, moneylenders are estimated to account for about one-third of the debt owed by rural households. The Reserve Bank is reviewing the laws on moneylending. One option is for banks to lend to registered moneylenders, using them as intermediaries. Priya Basu of the World Bank, an expert on India's rural credit market, thinks the idea makes sense “if they can co-opt moneylenders into the formal system”. Microcredit good; moneylenders not so bad after all.

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About sponsorship

Dresdner Bank and Allianz

Unnatural alliance

Aug 17th 2006 | FRANKFURT
From The Economist print edition

A dysfunctional relationship at the heart of German banking

GIVEN the disaster a year ago, when highly paid traders at Dresdner Kleinwort Wasserstein turned in a measly €128m ($161m) profit for the second quarter, their performance this year, at over €400m per quarter, looks quite respectable. But compared with the banks that used to be Dresdner Bank's peers, UBS and Deutsche Bank for example, the result reads like a condemnation of the Allianz group's trophy investment bank.

Allianz bought Dresdner Bank in 2001—a deal designed to marry banking, investment banking and insurance. But Dresdner was not much of a catch. It had €35.5 billion of problem loans. It had also just spent €1.6 billion on Wasserstein Perella, a corporate-finance boutique—probably one of the most misguided splurges on Wall Street talent ever. The Wasserstein culture clashed horribly not only with Dresdner, but with the ethos of Kleinwort Benson, a British merchant bank, which Dresdner had bought in 1995.

Allianz has never managed to get to grips with its new subsidiary. Only now, after Dresdner Kleinwort has purged itself of the Wasserstein name, and the bad loans have shrunk to €2.3 billion, does Dresdner Bank seem to be moving, if only modestly, in the right direction. Risk and cost reduction are its main achievements, but that of course makes earning big rewards, and attracting the right staff, all the more difficult. Herbert Walter, Dresdner Bank's boss, has not added much magic: he came from Deutsche Bank as a retail specialist.

Can a triumvirate of former Goldman Sachs rainmakers make a difference? The man running finance at Allianz, Stefan Jentzsch, was brought in from Goldman to run the investment bank in November by his friend Paul Achleitner—who used to be head of Goldman in Germany. Mr Jentzsch hired two former colleagues, Jens-Peter Neumann and Alberto Piedra, to head markets and corporate finance.

Dresdner Kleinwort has only around €2.4 billion of capital to play with. Allianz's asset-management arm and its private-equity business, Allianz Capital Partners, are too distant to give the investment bank much business. Nor do the top people at Allianz and Dresdner, apart from Mr Achleitner, have the easy access to top executives at client companies that makes deals happen.

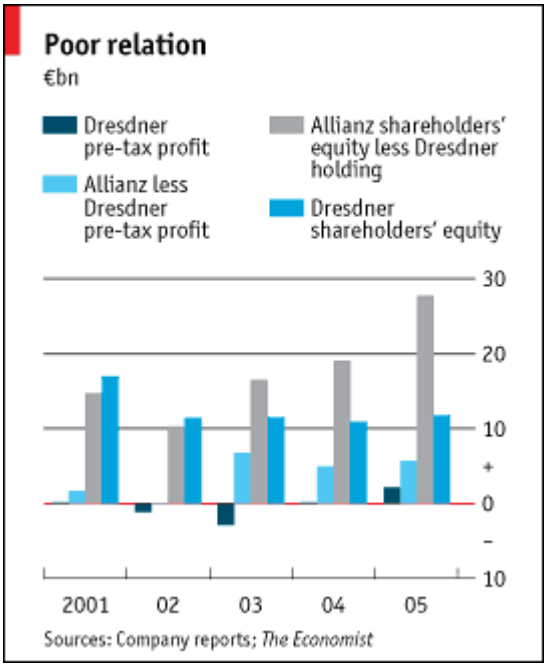
Dresdner Kleinwort is almost invisible among the top ten of most investment-banking league tables, despite its natural footholds in Germany and Britain. It heads the league in dealerships only for medium-term notes, a low-margin business.

It got rather late into prime brokerage—lending copious amounts of money to hedge funds and private-equity firms—where other investment banks have done well. In Germany British banks such as Barclays Capital and RBS have stolen that business. It is not that the bank wins no deals. So far, however, it is not winning enough to get the ratio of costs to income down to its target of 70%.

Allianz and its shareholders are faced with the prospect of a shrinking banking operation, at any rate in relation to the rest of the insurance group (see chart). Bancassurance, the cross-selling of banking and insurance products to retail clients, is working only at the margin: in the year to the end of June, Dresdner took around €700m in additional deposits from Allianz

customers and sold around €430m of Allianz life-insurance products.

As for the investment bank, there is little reason for an insurance company to own one. Attempts to sell it last year came to nothing, and since then, it has faced a $1.4 billion lawsuit from six women employees. The only feasible exit now, says a consultant, would be to sell or float the entire bank. Dresdner Kleinwort is being merged with Dresdner's corporate bank, taking over its top 2,000 customers. But the investment bankers still expect City-scale salaries and bonus structures. Previously, the attraction at Dresdner Kleinwort Wasserstein was a skewed bonus system that rewarded deal revenue rather than the actual return to shareholders. Mr Jentzsch is putting an end to that. If he can motivate a workforce that still contains some gifted people, so much the better. If not, there will be a diminishing demand for space at 30 Gresham Street, Dresdner Kleinwort's smart new address.



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Economics focus

The uses of adversity

Aug 17th 2006
From The Economist print edition

Why some people think a recession could be good for America

Get article background

IN 1871 America added about 6,000 miles of track to its railways, an endeavour that occupied a tenth of its industrial labour force. But by 1875 track-building had fallen by more than two-thirds, and employed less than 3% of America's workers.

According to Brad DeLong, an economic historian at the University of California, Berkeley, the violent ups and downs of the railway industry help to explain the popularity, before the Great Depression and John Maynard Keynes, of a fatalistic view of the business cycle. Recessions, however unpleasant, were cathartic, and therefore necessary. They released capital and labour from profitless activities (such as laying the year's 6,000th mile of track) as an essential prelude to redeploying them elsewhere. “Depressions are not simply evils, which we might attempt to suppress,” wrote Joseph Schumpeter. They represent “something which has to be done”.

In Schumpeter's day, this fatalism was shared by many at America's Federal Reserve. But today's Fed acts quickly to suppress recessions, which it recognises are mostly due to a lack of demand, not an excess of track. For the Fed, recessions are good for one thing, and one thing only: curbing inflation.

Unfortunately, this task is now an urgent one. According to figures released this week, core consumer prices rose by 2.7% in the year to July—too fast for comfort. In theory, curing this inflation could be painless. If the Fed's commitment to price stability is credible, and if people look forward, not backward, when settling their wages and setting their prices, they will respond to the Fed's promises. Unfortunately, in practice, inflation suffers from strong inertia. Hence cutting it typically requires a slowing of the economy as well as a lowering of inflationary expectations.

Like pagans sharpening their knives, economists debate the size of this “sacrifice ratio”: the number of people who must lose their jobs to appease the gods of price stability. Some models, including one of many that guide the Fed's deliberations, put this ratio as high as 4.25, which means that unemployment must rise by one percentage point (or 1.5m people) for 4.25 years to reduce inflation by one percentage point. But other, less bloodthirsty economists suggest the ratio is more like 2 or 2.5.

Ratios like these mean that for the first time in years America's domestic economists, who track their country's inflation and unemployment, are as worried about the future as its international economists, who fixate on the country's external imbalances. The internationalists have long feared that a recession might lie ahead should foreigners abruptly abandon the dollar. The prospect of a more conventional downturn—engineered not by foreign central banks, but by America's own—suggests the cart and horse belong in a different order. A recession might bring about a reversal of the current-account deficit, rather than the other way around. Recessions were, after all, part and parcel of Portugal's current-account reversal, which began in 1982, Britain's from 1989 and Spain's from 1991.

In principle, again, current-account deficits can be closed without a slowdown in production. America's gross domestic purchases of its own and foreign goods are currently running at about 106% of gross domestic product. In other words, there is enough domestic demand to buy all of America's output and more. In principle, these purchases could fall by six percentage points of GDP, eliminating the deficit, without anyone in America needing to fall out of work. America would not suffer a recession. But it would feel like one: every man, woman and child would have to curtail their spending by $2,600 a year.

Without import tariffs, however, it is not possible to curb consumers' purchases of foreign goods without

slowing their purchases of everything else too. When domestic demand falls, it tends to decline across the board. In some models, such as the one offered by Maurice Obstfeld, also at Berkeley, and Kenneth Rogoff, of Harvard University, the price of non-tradable goods falls by however much is necessary to clear the market and keep everyone at work, producing an undiminished amount of traded and non-traded goods.

Euthanasia of the realtor

In reality, however, America's deficit is unlikely to close without its industrial structure changing substantially. Only about a quarter of what it now produces can be sold across borders. Andrew Tilton of Goldman Sachs has calculated that to boost exports and narrow its deficit to 2.5% of GDP by 2010, America would need to increase its manufacturing capacity by about 17%. But until this year, it was housing, a non-traded good par excellence, which has attracted extra labour and capital. In 2005 the share of construction workers in payroll employment was the highest in 50 years, and residential investment accounted for the biggest chunk of GDP since 1951. Schumpeter, no doubt, would call this “maladjustment”.

Might a recession do for housing what it did for late-19th-century railways? The last downturn was accompanied by substantial restructuring, according to a widely cited paper by Erica Groshen and Simon Potter of the Federal Reserve Bank of New York. Workers who lost their jobs in the 2001 recession did not return to the same industry during the recovery. Instead, those who did not leave the labour force altogether slowly migrated to new industries. Companies, the authors wrote, saw the recession “not as an event to be weathered but as an opportunity—or even a mandate—to reorganise production permanently, close less efficient facilities and cull staff”. Schumpeter could not have put it better himself.

Recession is not inevitable. But if a 2007 slowdown curbs inflation, narrows the trade deficit and clears space for an American manufacturing revival it will prove a surprisingly fruitful period of dearth.

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About sponsorship

Correction: America's Federal Reserve

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In "Missing a wingbeat" (August 12th) we said that Jeffrey Lacker was the first member of the Federal Reserve's rate-setting committee to vote differently from the chairman since June 2003. In fact, there was a dissenting vote in September 2005. We apologise.

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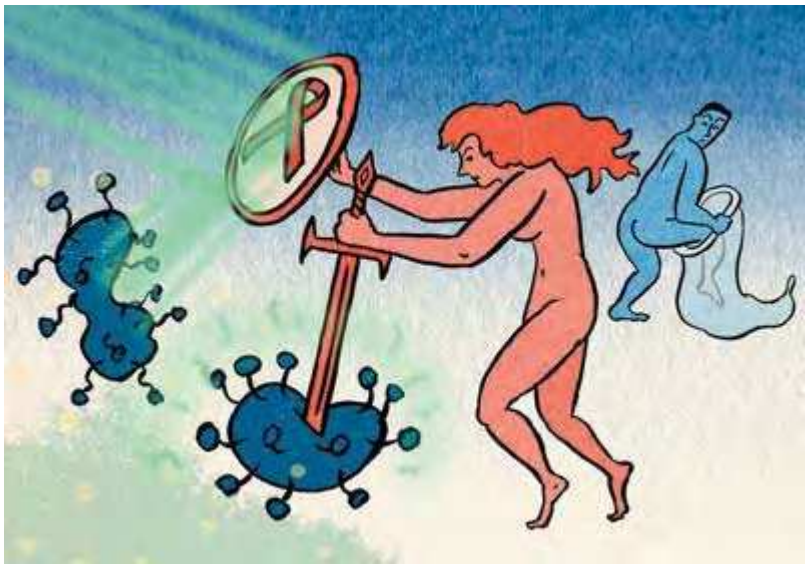
AIDS

Stand and deliver

Aug 17th 2006 | TORONTO
From The Economist print edition



For the first time since the epidemic began, money to fight AIDS is in plentiful supply. It is now time to convert words into action

Get article background

KEVIN DE COCK, the World Health Organisation's AIDS supremo, is not a man to mince his words. He reckons that he and his colleagues in the global AIDS establishment have between five and seven years to make a real dent in the problem. If they fail, the world's attention span will be exhausted, charitable donors and governments will turn to other matters and AIDS will be relegated in the public consciousness to being yet another intractable problem of the poor world about which little or nothing can be done.

For now, though, the money is flowing. About $8.9 billion is expected to be available this year. And, regardless of Dr De Cock's long-term worries, that sum should rise over the next few years. Not surprisingly, a lot of people are eager to spend it.

Many of those people—some 24,000 of them—have been meeting in Toronto at the 16th International AIDS Conference. An AIDS conference is unlike any other scientific meeting. In part, it is a jamboree in which people try to out-do each other in displays of cultural inclusiveness: the music of six continents resonates around the convention centre. In part, it is a lightning conductor that allows AIDS activists to make their discontent known to the world in a series of semi-official protests. It is also what other scientific meetings are, a forum for the presentation of papers with titles such as “Differing lymphocyte cytokine responses in HIV and Leishmania co-infection”. But mostly, it is a giant council of war. And at this one, the generals are trying to impose a complete change of military strategy.

What goes around, comes around

When AIDS was discovered, there was no treatment. Existing anti-viral drugs were tried but at best they delayed the inevitable, and at worst they failed completely. Prevention, then, was not merely better than cure, it was the only thing to talk about. Condoms were distributed. Posters were posted exhorting the advantages of safe sex. Television adverts were run that showed the consequences of carelessness.

Ten years ago, though, a new class of drugs known as protease inhibitors was developed. In combination with some of the older drugs, they produced what is now known as highly active anti-retroviral therapy or HAART. In most cases, HAART can prolong life indefinitely.

That completely changed the picture. Once the AIDS activists had treated themselves, they began to lobby for the poor world to be treated, too. And, with much foot-dragging, that is now happening. About 1.6m people in low- and middle-income countries, 1m of them in sub-Saharan Africa, are now receiving anti-AIDS drugs routinely. The intention, announced at last year's G8 meeting in Scotland, is that the drugs should be available by 2010 to all who would benefit from them.

However, those on drugs remain infected and require treatment indefinitely. To stop the epidemic requires a re-emphasis of prevention, and it is that which the organisers have been trying to do.

What they are really hoping for might, perhaps, be described as a “protease-inhibitor moment”—a technological fix that will substitute condoms (which require willpower and the consent of both parties) with something that is “fit and forget”. The hope remains that this fix would be a vaccine. But the search for a vaccine has yet to bear fruit (see article). What has changed is that a number of other prevention techniques have been dreamt up and are now in the final phases of testing. If one or more of them work—and if people can be persuaded to use them—that might make a big difference to the rate at which the virus spreads from person to person.

Prevention means different things in different places. In rich countries, it is easy to regard AIDS as a disease of the self-indulgent: if you had not slept around, if you had not used drugs, then you would not have got infected. But in many places, and particularly for women, that is not true. Even spouses who are faithful to their husbands or wives are at risk if that fidelity is not reciprocated. And in many places, women have little control over their own sex lives. Survey after survey in southern and eastern Africa records that married men, let alone the unmarried, refuse to use condoms, even when asked. But for women who want to protect themselves from infection without relying on their menfolk, the news is good. Several techniques that they could use without male involvement are now undergoing thorough clinical trials.

The first is vaginal microbicides. These are chemicals that are placed in the vagina before sexual intercourse, and prevent the virus crossing into the body. No microbicide has yet been approved for use, but five are in trials that could lead to approval, and two of those trials are expected to report next year.

A number of chemicals are being tested as microbicides. Some are applied as gels or foams, though the most desirable form of delivery is agreed by most people to be a small ring that can be fitted at the neck of the cervix and would allow the microbicide to diffuse out slowly over the course of weeks or months. That would, indeed, be a “fit and forget” method that would protect against infection from demands for instant sex by drunken husbands—although Zeda Rosenberg, the head of the International Partnership for Microbicides observes that some men find the gels enhance their experience and encourage their use.

Dr Rosenberg's ultimate microbicide would be based on the drugs used in HAART. Unless there are open sores in a woman's vagina, the virus has to make its way into her body by getting into immune-system cells in the vaginal lining. In theory, the drugs should stop viruses breeding in those cells in exactly the same way that they do if the cells are in the rest of the body.

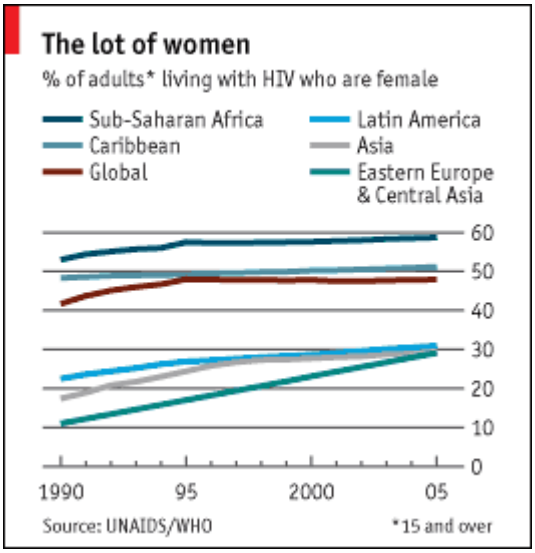
A second technique addresses those sores. One common cause of them is herpes infection. A woman who is infected with herpes is twice as likely as an uninfected one to pick up HIV, and she is five times as likely to pass it on if she is already infected. But drugs exist to suppress herpes and two trials—one on the risk of becoming infected and one on the risk of transmitting HIV—are expected to report next year and the year after.

A third female-friendly technology is prophylactic drug use (although men could benefit, too). This also employs the drugs involved in HAART. The idea is to build up a hostile environment for any virus that does make it into the bloodstream. Experiments on monkeys suggest this might work, particularly if two drugs are used simultaneously. Prophylactic-drug trials have a slightly chequered history. Five trials are going on at the moment, but four others have been stopped in midstream for various reasons. One of the five reported its results at the conference. These suggest the drugs are safe, but the trial

turned out to be too small to show whether they are effective.

Anti-HIV drugs are quite toxic. They can, for example, cause liver damage. That toxicity is obviously tolerable if the alternative is death. But prophylaxis works, by definition, on the healthy. Side effects are therefore less acceptable. One important question that the trials need to answer, therefore, is whether healthy people can take low doses of the drugs safely over the long term.

A fourth female-controlled technology is to “re-purpose” cervical diaphragms from their normal use as contraceptives to act as blockers of infected semen, rather as condoms have found another use. A trial to test whether this works will report in the middle of next year.



It's no longer a man's world

Men are not forgotten in all this, though the male-specific proposal might not necessarily be described as male-friendly. It is circumcision. The observation that among men leading similar lives in similar places, the circumcised are less infected than the uncircumcised has led to a proper, scientific investigation of the matter. A study conducted in South Africa, which reported last year, was so successful that its organisers brought it to a premature conclusion in order to tell the uncircumcised control group that they might be well advised to have the snip. Three other trials are in progress, the first of which reports next year.

Even if all these techniques work, though, none will be effective unless people can be persuaded to use them. And here, medicine must give way to marketing. Yet far too little attention has been paid to finding the best ways of getting the message across.

When the message is aimed at the uninfected, often young and eager for sexual experience, it is a very hard sell indeed. Those aged between 15 and 24 years are at the centre of the AIDS pandemic. Some progress has been made in finding out how best to package the message for them. A report produced by UNAIDS, the United Nations agency responsible for fighting the disease, has collated 80 local studies into the matter. It performs a triage into what works, what might be made to work, and what does not work. Sadly, it then descends into jargon. As Cristina Pimenta, of the Brazilian Interdisciplinary AIDS Association, so neatly put it, there is a tendency to design studies as though people are “well-behaved research objects”. The road to prevention is likely to be a long one.

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The quest for an AIDS vaccine

Another throw of the dice

Aug 17th 2006 | TORONTO
From The Economist print edition

Some people never give up—and rightly so

Get article background

EIGHTY FIVE trials of more than 30 substances in 20 years, and no success. The search for an AIDS vaccine really is beginning to look like the hunt for the Holy Grail. The harder researchers look for it, the more elusive it appears. But, like knights of old, AIDS-vaccine researchers are loth to quit.

The desire for a vaccine is driven by the belief that it is the only thing that can stop the epidemic. The problem is that vaccines for other diseases work by stimulating in everybody a disease-clearing immune response that is already present in some. In the case of AIDS, there is no known case of someone becoming infected and then getting rid of the virus spontaneously. On the other hand, there are a few people—about 1,000 are known—who have been infected for years without developing symptoms. It is their existence that keeps the hope of researchers alive. Clearly, the immune systems of these "long-term non-progressors" are doing something to protect their owners. Researchers just need to discover what it is.

To help things happen, researchers—or, rather, their paymasters—have fallen back on that beloved prescription of management consultants everywhere: reorganise the way things are done. Out go heroic lone scientists battling against the odds. In come large teams and specialist centres. That is the approach backed by America's National Institutes of Health, the world's biggest sponsor of medical research, which is putting its billions behind CHAVI, the Centre for HIV/AIDS Vaccine Immunology. It is also the approach of the Bill & Melinda Gates Foundation, which announced last month that it was giving $287m to 16 large, collaborative teams.

So, the money is there. The reorganisation has been done. The long-term non-progressors are co-operative. All that remains is for the knights to charge.

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Genetics

Man, deconstructed

Aug 17th 2006
From The Economist print edition

The DNA that may have driven the evolution of the human brain

Get article background

ONE of the benefits of knowing the complete genetic sequences of humans and other animals is that it becomes possible to compare these blueprints. You can then work out what separates man from beast—genetically speaking, at least.

The human brain sets man apart. About 2m years ago it began to grow in size, and today it is about three times larger than that of chimpanzees, man's closest relative. Human intelligence and behavioural complexity have far outstripped those of its simian cousins, so the human brain seems to have got more complex, as well as bigger. Yet no study has pinpointed the genetic changes that cause these differences between man and chimp.

Now a group of scientists believe they have located some interesting stretches of DNA that may have been crucial in the evolution of the human brain. A team led by David Haussler of the Howard Hughes Medical Institute in California, compared the human genome with that of mammals including other primates. They reported the results in *Nature*.

The researchers looked at the non-human genomes first, seeking regions that had not changed much throughout evolutionary history. Regions that are untouched by normal random changes typically are important ones, and thus are conserved by evolution. Next the researchers found the equivalent regions in the human genome to see if any were very different between humans and chimps. Such a sudden change is a hallmark of a functional evolutionary shift.

They found 49 regions they dubbed “human accelerated regions” (HARs) that have shown a rapid, recent evolution. Most of these regions are not genes as commonly understood. This is because they code for something other than the proteins that are expressed in human cells and that regulate biological processes. A number of the HARs are portions of DNA that are responsible for turning genes on and off.

Intriguingly, the most rapidly changing region was HAR1, which has accumulated 18 genetic changes when only one would be expected to occur by chance. It codes for a bit of RNA (a molecule that usually acts as a template for translating DNA into protein) that, it is speculated, has some direct function in neuronal development.

HAR1 is expressed before birth in the developing neocortex—the outer layer of the brain that seems to be involved in higher functions such as language, conscious thought and sensory perception. HAR1 is expressed in cells that are thought to have a vital role in directing migrating nerve cells in the developing brain. This happens at seven to 19 weeks of gestation, a crucial time when many of the nerve cells are establishing their functions.

Without more research, the function of HAR1 remains mere speculation. But an intriguing facet of this work is that, until now, most researchers had focused their hunt for differences on the protein-coding stretches of the genome. That such a discovery has been made in what was regarded as the less interesting parts of the human genome is a presage of where exciting genomic finds may lie in the future.

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Image technology

Keeping it real

Aug 17th 2006
From The Economist print edition

How to make digital photography more trustworthy

PHOTOGRAPHY often blurs the distinction between art and reality. Modern technology has made that blurring easier. In the digital darkroom photographers can manipulate images and threaten the integrity of endeavours that rely on them. Several journalists have been fired for such activity in recent months, including one from Reuters for faking pictures in Lebanon. Earlier this year, the investigation into Hwang Woo-suk showed the South Korean scientist had changed images purporting to show cloning. In an effort to reel in photography, camera-makers are making it more obvious when images have been altered.

One way of doing this is to use image-authentication systems to reveal if someone has tampered with a picture. These use computer programs to generate a code from the very data that comprise the image. As the picture is captured, the code is attached to it. When the image is viewed, software determines the code for the image and compares it with the attached code. If the image has been altered, the codes will not match, revealing the doctoring.

Another way favoured by manufacturers is to take a piece of data from the image and assign it a secret code. Once the image file is transferred to a computer, it is given the same code, which will change if it is edited. The codes will match if the image is authentic but will be inconsistent if tampering occurred.

The algorithm is the weapon of choice for Hany Farid, a computer scientist at Dartmouth College in New Hampshire. Digital images have natural statistical patterns in the intensity and texture of their pixels. These patterns change when the picture is manipulated. Dr Farid's algorithms detect these changes, and can tell if pixels have been duplicated or removed. They also try to detect if noise—the overexposed pixels within the image that create a grainy effect—was present at the time the photograph was taken or has been added later.

However, forgers have become adept at printing and rescanning images, thus creating a new original. In such cases, analysing how three-dimensional elements interact is key. Long shadows at midday are a giveaway. Even the tiny reflections in the centre of a person's pupil tell you about the surrounding light source. So Dr Farid analyses shadows and lighting to see if subjects and surroundings are consistent.

For its part, Adobe, the maker of Photoshop software, has improved its ability to record the changes made to an image by logging how and when each tool or filter was used. Photoshop was the program used by the journalist fired by Reuters; his handiwork left a pattern in the smoke he had added that was spotted by bloggers. Thus far the internet has proven an effective check on digital forgery. Although it allows potentially fake images to be disseminated widely, it also casts many more critical eyes upon them. Sometimes the best scrutiny is simply more people looking.

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New fiction

Window on the world

Aug 17th 2006
From The Economist print edition

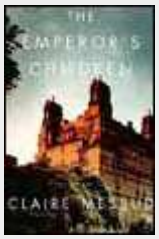
Opale

Claire Messud's new novel will make her name

CLAIRE MESSUD has always been one for surprises. Whereas many novelists start out writing semi-veiled autobiographies dressed up as coming-of-age stories, Ms Messud, at the age of 28, brought out a novel called “When the World was Steady”, about two middle-aged British sisters who discover that they are not at all the people they thought they were. When she did finally get around to writing her coming-of-age story, “The Last Life”, it was not her own but that of a French teenager trying to come to terms with her fatherland after her family are forced to flee Algeria during the troubles that preceded its independence.

Ms Messud's new novel is yet again a surprise—a comedy of manners set in the months immediately before and after the September 11th 2001 attacks and involving three bright young things who work in the media in New York. As the judges of the Man Booker prize recognised this week when they placed “The Emperor's Children” on the long list for the 2006 award, the surprise here is that such an obvious and overworked cliché can be transformed into so intelligent and unsparing a piece of fiction.

The Emperor's Children
By Claire Messud



Knopf; 431 pages; $25.
Picador; £14.99

Buy it at
Amazon.com
Amazon.co.uk

Marina Thwaite, Danielle Minkoff and Julius Clarke met at Brown University, and left believing they were destined to do important things. But as they approach 30, they are struggling: Danielle to make television documentaries and Julius to bolster his meagre earnings as a freelance critic by temping in secret in his only good suit. “This is New York, guys. And people without money aren't noble, they're beggars.” Marina, the beautiful only daughter of a celebrated social pundit, has gone back to living with her parents on the Upper West Side, unable to finish “The Emperor's Children Have No Clothes”, her book on how children's apparel mirrors changes in society, which a publisher commissioned mostly because of her father's fame.

Straddling this trio is the celebrated journalist himself, Marina's father, Murray Thwaite, the emperor. Tall, with leonine hair and smelling vaguely of gin-and-tonic—his favourite cologne is Christian Dior's Eau Sauvage—Thwaite is a popular commentator on television and on campus. “He loved to talk...he loved to *teach*”. Thwaite made his name young, studying France's wartime resistance movement while on a

Fulbright scholarship to Paris, and is devoted to his wife of many years, a saintly lawyer who represents the “battered housewife or burly, knuckleheaded truant”. To many people he is a hero.

Into this scene come two agents of change. One is Ludovic Seeley, a reptilian Australian journalist with a passion for the maxims of Napoleon, who is sent to New York to launch a new magazine of “questioning essays” which he hopes will distract the city's inhabitants from their perennial navel-gazing and revolutionise the place. The second is Thwaite's plump, proud nephew Frederick “Bootie” Tubb, who wears old-fashioned brown flannel pyjamas and holds the world to such impossible standards he turned down a place at Harvard in favour of becoming an autodidact.

Seeley sucks up to Thwaite, but secretly believes he is a fraud, a “Wizard of Oz, a tiny, pointless man roaring behind a curtain”, and he plots his ruin as he seduces his daughter. Bootie is one of the many who revere Murray Thwaite until he begins to uncover, after he becomes his uncle's amanuensis, that his hero may be no more than an “imposing façade...a hollow monument”. Among other things, Thwaite rehashes old stories he has written before, sits in his study in the morning sipping from a bottle of whisky in the drawer of his desk and calmly blows away a commitment to speak at a fund-raising dinner for a Harlem youth programme in favour of a publisher's invitation to a dinner in honour of two well-known Palestinian activists. He may, Bootie suspects, even be having an affair.

In the months between March and November 2001, the lives of these six characters—like those of so many in the city—are turned inside out. In fine, fluid brush strokes Ms Messud exposes their fears and their secrets. Two set pieces stand out: the death of the Thwaites' aged cat and the disintegration of Julius's gay love affair. Neither is essential to the plot, and yet each of these pieces of writing, the first no more than a page long, illuminates Ms Messud's particular gifts. She excels at depicting the neurotic uncertainties of people who know they are privileged but feel sorry for themselves anyway. But it is the finesse with which she satirises these people but still leaves you caring what happens to them that is the book's great achievement. “The Emperor's Children” is likely to be one of the most talked-about novels of the autumn, and not just by New York thirty-somethings in the media. Buy two copies; give one to a friend.

The Emperor's Children.
By Claire Messud.
Knopf; 431 pages; $25.
Picador; £14.99

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About sponsorship

Fiction from Africa

Where magic is reality

Aug 17th 2006
From The Economist print edition

ACCORDING to the Kikuyu people of Kenya, the strongest sorcerers are the wizards of the crow—those who can bring down a crow, dead, with a single glance into the sky. In Ngugi wa Thiong'o's sprawling farce, a wizard of the crow brings about the demise of a dictator and gives hope to his country, the mythical Free Republic of Aburiria.

Would that real Kenya had such a wizard. Mr wa Thiong'o, who is translating himself here from his original Gikuyu—and stretching his language as no one else has done—was imprisoned in Kenya in 1977, the same year that his most famous novel, “Petals of Blood”, was published. The then president, Daniel arap Moi, took offence at Mr wa Thiong'o's satire. Upon his release, Mr wa Thiong'o went into exile, building a parallel career as an American academic. On a recent trip back to Kenya, the apartment where he was staying was broken into. Assailants burned his face with cigarettes. His wife was raped. Mr wa Thiong'o thinks the attack was political. It may have been. In Africa, big men don't care to be laughed at.

Wizard of the Crow
By Ngugi wa Thiong'o

Pantheon; 784 pages; $30.
Harvill Secker; £18.99

Buy it at
Amazon.com
Amazon.co.uk

The now retired Mr Moi would certainly be advised to leave this powerfully funny, if messy, book alone. Aburiria is recognisable as modern Africa in all its splendour, squalor, economic malaise and venality, but it comes with more than a touch of magical realism. The dictator here is simply called the ruler. America likes him because he killed a lot of his countrymen, “Communists”, during the cold war. The “Global Bank” is intrigued enough to consider underwriting his proposed tower of Babel, the “March to Heaven”, which will rise up from the prairie outside the capital. The ruler wears superb suits whose pinstripes are “made up of tiny letters that read MIGHT IS RIGHT”. He begins squarely enough, seducing schoolgirls and taking his cut of even the smallest defence contracts. His wife protests about the schoolgirls. He sends her away and calls for national festivals of wife-beating. “Since when could a male, let alone a ruler, be denied the right to feel his way around a woman's thighs,” he reasons.

Mr wa Thiong'o has a theatrical background and there is much that is theatrical here, not least the plastic surgery undertaken by the ruler's sycophantic and crooked ministers, so that one has his eyes “enlarged to the size of electric bulbs”, the better to spot enemies of the ruler, and another has his ears lengthened in a Paris clinic “larger than a rabbit's and always primed to detect danger”.

Then there is the love story between Kamiti and Nyawira. Kamiti was born with a seashell in his fist—a sign of his magical powers. Despite a couple of university degrees, including one from India, he struggles to find a job. He stumbles into the role of the wizard of the crow. Nyawira, a secretary who secretly leads the feminist Voice of the People movement, sometimes fills in for Kamiti as the wizard. Their relationship is tender, one of equals, even in sorcery; it is Nyawira who summons a bird down to the forest floor, to feed, not to die.

Feminists have taken Mr wa Thiong'o to task in the past, but he makes sure the ruler gets his comeuppance here. He falls pregnant to a kind of full-body pregnancy and floats in the chambers of the State House like an errant Roald Dahl child. After the birth of a “baby vaguely resembling Aburiria” a foul pall hangs over the capital. White men, white corporations, evil Europe and wannabe-white black Africans all share the blame for the stench of the proliferating kleptocracy. The wannabes suffer from “white-ache”, a condition that manifests itself with bouts of words sticking in the throat; all they can do is repeat two phrases, “if” or “if only”.

“Wizard of the Crow” is the full English version of a multi-volume Gikuyu satire that Mr wa Thiong'o has been writing and translating for the past ten years and which is gradually being published in parts in

Kenya. Despite the book's faults, it is hard not to be cheered by the spirit of gentle resistance that is at its core, in defiance of everyday greed.

Wizard of the Crow.
By Ngugi wa Thiong'o.
Pantheon; 784 pages; $30.
Harvill Secker; £18.99

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Beach reading

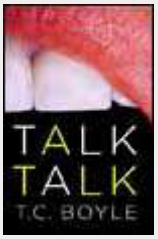
Steal magnolia

Aug 17th 2006
From The Economist print edition

IF IDENTITY is a natural subject for fiction, so also is identity theft. In his riveting new novel, “Talk Talk”, T.C. Boyle portrays not only the profound violation of having a double walking the world, using—and destroying—your good name, but also the thief's curiously proprietary relationship to his new persona.

Dana—the real Dana—is a deaf woman in California, suffering from enough identity issues within the hearing world without needing further help. Already balancing a chip on her shoulder the size of a chopping block, Dana is stopped for a minor traffic violation, only to be arrested, booked for a host of misdemeanours, and locked up for days with abusive, filthy inmates. Once it is established that the wanted “Dana” is actually a man, who has helped himself to everything from her sterling credit history to her PhD, the fiery protagonist is released. Yet her absence from the classroom while in jail has cost Dana her teaching job. Armed with a few clues and driven to exact vengeance, she drags her hearing boyfriend on a mission to track down the other Dana, giving the traditional West Coast endeavour to “find yourself” a whole new meaning.

Talk Talk
By T.C. Boyle



Viking; 320 pages; $25.95.
Bloomsbury; £10.99

Buy it at
Amazon.com
Amazon.co.uk

Meanwhile, “Dana”—aka Peck—is living the life of Riley with his Russian girlfriend and her whiny daughter. Mr Boyle's rendering of the world of the deaf is well wrought; his portrayal of the white-collar criminal is even better. Peck has his own sense of entitlement, his own elitism (he has exquisitely good taste), and his own work ethic.

Peck regards other people's identities as capital he has earned, and he describes his systematic appropriation of strangers' bona fides as a “business”. It is the reader's job to remember that all the fine seafood that Peck prepares, the elegant $600 suit he despairs of ripping when fleeing this annoying deaf woman with the nerve to call herself “Dana”, and the burgundy BMW he buys for escaping from the harridan are all purchased on another sucker's dime; Peck himself will never remind you of this. Mr Boyle captures the righteous indignation of the culprit when the woman whose life he has ruined dares to think of ruining his.

Entertaining, headlong, and told with the sharp, droll and inventive prose one would expect from an author of this calibre, “Talk Talk” is a classic beach read—although you may not want to get sand in the crevices of so good a book.

Talk Talk.
By T.C. Boyle.
Viking; 320 pages; $25.95.
Bloomsbury; £10.99

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Literary fireworks

Clueless in Carolina

Aug 17th 2006
From The Economist print edition

AFTER her mother is killed in a car accident, Blue van Meer is raised by her high-brow, low-comfort father, travelling around America—in part because of his modern ideas about schooling and his inability to treat women decently—to 39 cities in 33 states. Then in her last year, they finally land in Stockton, North Carolina, where the hip, culty kids in Blue's class make it clear they do not want her around. Until Blue gets taken up by the group's favourite teacher, Hannah Schneider.

Teacher's pet

There follows, from September through to graduation in the summer, the common student migration of study groups, teenage crushes, groping teachers, coloured vodka cocktails, Saturday-night petting and staying up until the wee hours. There are enough unexplained deaths to keep you on your toes, and a plethora of source notes—some of which refer to real books, but not all.

Structured as a university English literature course, with each chapter mimicking the core curriculum—"Othello", "Les Liaisons Dangereuses", "The Woman in White"—"Special Topics in Calamity Physics" spews out in-jokes, literary references and, of course, clues. For, in addition to being a pointy-headed point-scoring obstacle course so replete it would fell a marine, it is also in the end a whodunnit as much as a why-he-did-it.

Clever, erudite and hugely amusing, it certainly is. Ultimately, though, the book feels as if it were written more with the head than the heart. Reading it is like Jenga, in which players take it in turns to remove a single piece from a tower of wooden blocks and place it on top of the last storey. As it sprouts holes in its nether regions, the edifice grows and grows, teetering, tottering, until finally it collapses in a tumbling avalanche of pieces. So with this novel. A book to chuckle over and chuck away.

Special Topics in Calamity Physics.
By Marisha Pessl.
Viking; 514 pages; $25.95.
Viking; £16.99

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America and Iraq

A litany of abuse

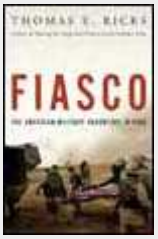
Aug 17th 2006
From The Economist print edition

Get article background

IN JULY 2003 George Bush gave this statement on Iraq: “There are some who feel that the conditions are such that they can attack us there,” the president said. “My answer is: Bring 'em on. We've got the force necessary to deal with the security situation.” A year later, with over 7,000 American dead and wounded, a failed occupation authority and Iraq in flames, one insurgent group issued its response: “Have you another challenge?”

It was not quite so surprising that Mr Bush should fail to grasp that the insurgency could not be defeated by firepower, that America's forces were incapable of trying other ways, and were too few: he believed what his advisers told him. Whether wedded to personal dogmas, like Paul Wolfowitz, the deputy defence secretary, who drove the Iraq policy in ignorance of the reality, or intellectually restricted, like General Tommy Franks, who led the invasion, America's most senior officials failed to comprehend basic strategy. On his desk, Paul Bremer, a disastrous occupation chief, planted the grandiloquent sign: “Success has a thousand fathers”. His cannier, and cold-shouldered, British deputy, Sir Jeremy Greenstock, said it should instead have read: “Security and jobs, stupid”.

Fiasco: The American Military Adventure in Iraq
By Thomas E. Ricks



Penguin Press; 482 pages; $27.95.
Penguin/Allen Lane; £25

Buy it at
Amazon.com
Amazon.co.uk

Thomas Ricks, a reporter with the *Washington Post*, has written the latest of several excellent compendiums of these blunders. Many, especially in the war's run-up and early months, are well-known: the fake pre-war intelligence; the failure to commit sufficient troops to the invasion; or to plan for its aftermath, and so on. But Mr Ricks has dug up enough new sources to justify revisiting them. His research took in 37,000 pages of official documents, hundreds of interviews and access to e-mails that, according to one survey, have been written weekly by 95% of American soldiers in Iraq. Perhaps more confidently than in any previous history, he connects America's half-cocked strategy to subsequent calamities on the ground. Most controversially, he describes widespread abuses against Iraqi citizens, including hostage-taking, murder, torture and theft, committed by American soldiers who did not understand why they were in Iraq or what they were supposed to be achieving there. Only a small minority of these crimes, perhaps, such as those at Abu Ghraib prison, have so far come to light.

Another virtue of retelling the whole ugly tale is to dispel a favourite accusation of the Bush administration: that its critics are “Monday morning quarterbacks”, emboldened only by hindsight. At every step, in fact, from the pre-war intelligence to American interrogation tactics, wiser men than those in power questioned each facet of the Iraq policy. These people—in the Central Intelligence Agency, in Congress, and especially in America's armed forces—failed to be heard only because Mr Bush's team viewed any contrary view as dangerous dissent. Donald Rumsfeld, the defence secretary, recently recoiled against a claim that America had made errors in Iraq, despite thousands of official documents listing them, including many that Mr Ricks has unearthed. As America searches for any joy in the fiasco it has made of Iraq, it can at least be proud of serious and brave reporters like Mr Ricks—among whose fine observations is the novel fact that few American troops now care to buy the Iraq campaign T-shirt.

Fiasco: The American Military Adventure in Iraq.
By Thomas E. Ricks.
Penguin Press; 482 pages; $27.95.
Penguin/Allen Lane; £25

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New film

The view from Ground Zero

Aug 17th 2006
From The Economist print edition

Oliver Stone's tribute to September 11th

“WORLD TRADE CENTER”, which has just opened in America and will be released in Britain at the end of next month, shows the September 11th 2001 terrorist attacks through the eyes of two “first responders” who went into one of the twin towers to save lives and almost lost their own. Instead of a polemical big picture such as he painted in his earlier “JFK”, Oliver Stone here proposes a microcosm of the event.

By telling the story of John McLoughlin (Nicolas Cage) and Will Jimeno (Michael Pena), two policemen from New York City's Port Authority who were among the first on the scene, Mr Stone invites the audience to relive the trauma of that day in the company of characters who have no idea what is happening or why. Instead of seeing the plane hit the first tower, viewers glimpse its shadow on the wall of a building seconds before they hear the impact. Contradictory rumours of other attacks circulate. The words “al-Qaeda” are never spoken.

As the two protagonists and their colleagues approach the site of the mysterious disaster, enshrouded in smoke, they are unnerved to see a man plunge from a window. Entering the first tower, they doggedly set about organising a rescue attempt, but before they can swing into action the building collapses and they are buried in the rubble.

Maria Bello and Maggie Gyllenhaal play their wives, who go through hell waiting for news, but it is the scenes of the immured men, filmed in tight close-ups from two unvarying angles, that create a suffocating intensity. Cutaways show the patch of daylight they glimpse through the twisted wreckage 20 feet above their heads. When Will Jimeno is hauled out of the rubble at the end of the film, his first question is: “Where did the buildings go?”

Mr Stone has been criticised for his portrayal of the film's third hero, Dave Karnes (Michael Shannon), a retired marine from Connecticut who consulted his pastor, donned his old uniform and headed for Ground Zero, where he found the buried men and alerted the firemen who unhesitatingly risked their lives to save them. This moving character is shown talking about re-enlisting to avenge the atrocity, and there is a brief mention in the end credits that he later served two tours of duty in Iraq.

In fact, Mr Karnes's character just reminds viewers of what they now know about that subsequent conflict, allowing reality to make its own comment. Instead of a political statement, the film contents itself with a tribute to the working-class heroism that shone out of the black hole of the event, offering hope even in the trauma and chaos of the moment.

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Amazon worldwide bestselling fiction

Paper imaginings

Aug 17th 2006
From The Economist print edition

Amazon's biggest-selling novel is a surprise new entry

MARISHA PESSL'S first novel was only published in America a fortnight ago, and has yet to come out at all in Britain let alone be translated. Yet “Special Topics in Calamity Physics” (see article) has already garnered enough pre-pub poop as the summer's snappy read for the literary minded—Donna Tartt meets “Picnic at Hanging Rock”—to send it to the top of *The Economist*/Amazon worldwide bestseller table.

1	**Special Topics in Calamity Physics**	By Marisha Pessl
2	**The Kite Runner**	By Khaled Hosseini
3	**The Memory Keeper's Daughter**	By Kim Edwards
4	**Judge & Jury**	By James Patterson and Andrew Gross
5	**The Ruins**	By Scott Smith
6	**The Island**	By Victoria Hislop
7	**Suite Française**	By Irène Némirovsky
8	**Das Fünfte Evangelium**	By Philipp Vandenberg
9	**Artemis Fowl: The Lost Colony**	By Eoin Colfer
10	**The Messenger**	By Daniel Silva

Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr and Amazon.jp, from July 1st-August 11th 2006

Dan Brown and J.K. Rowling, who regularly monopolise Amazon's bestseller lists, are now gone. In their place are some new runners: “The Memory Keeper's Daughter” by Kim Edwards, a book that was ignored when it came out in June 2005 but has since astonished author and publisher alike with its rocketing word-of-mouth sales; Victoria Hislop's “The Island”, which received a fillip when it was recently picked by “Richard and Judy”, Britain's Oprah Winfrey; “Suite Française”, an unfinished French war-time classic which was written by a woman who was sent to Auschwitz and discovered only decades later by her daughter, and “Das Fünfte Evangelium” a German historical novel by an author who is barely published in English.

Each week, Amazon's six websites—in America, Britain, Canada, France, Germany and Japan—sell hundreds of thousands of items, making it by a long margin the biggest online retailer of books in the world, perhaps the biggest altogether. This volume alone makes Amazon an important barometer of literary taste, and its bestseller tables are coming under increasing scrutiny by publishers and bookshops alike. Consider one example: when pre-publication orders posted for “Special Topics in Calamity Physics” began to soar on Amazon.com in July, the book's British publishers, Penguin, rushed a cheaper export edition into bookshops at Heathrow airport and authorised a significant in-store promotion campaign there, a month before the hardback was available elsewhere in the country. The promotion happened to coincide with the British security alert when, for a time, passengers could only take onboard books they had bought after having cleared all security checks. Ms Pessl's publishers must be slapping themselves on the back at their foresight.

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John Weinberg

Aug 17th 2006
From The Economist print edition

FT

John Weinberg, the conscience of Goldman Sachs, died on August 7th, aged 81

WHEN he died, John Weinberg did not make the front page of the financial papers. This was odd, since he was perhaps the most successful banker of the past half-century. And yet the perceived slight might have pleased him. Wall Street is packed with large egos skilled at self-promotion. Mr Weinberg was the opposite. He hired a man to keep his name and his firm's out of the press, and kept him off the full-time payroll (though he sat full-time at a desk in head office) so that if, improbably, a comment did slip out, it could be honestly dismissed as not coming from a Goldman Sachs employee.

Publicity, in Mr Weinberg's mind, was excellent as an enterprise—he was on the board of Knight Ridder, a large American newspaper chain, and helped orchestrate General Electric's purchase of NBC, a television network—but for his own business he thought it toxic. Even good publicity could make a banker uppity, disloyal and limelight-seeking. And bad publicity was intolerable. After a partner's sordid affair with an underling was revealed, Mr Weinberg personally fired him and called in others, giving them 30 days to confess to similar indiscretions and to suffer financial penalties or be sacked, as some were. Goldman's reputation, Mr Weinberg felt, had to be protected at all costs.

To work at Goldman when Mr Weinberg headed the firm—from 1976 to 1985 with John Whitehead, then by himself until 1990—was to be tightly absorbed into an institution that had a monastic quality. Goldman's senior employees earned staggeringly large sums. Yet Mr Weinberg believed the best place for their money was in Goldman's capital accounts, where it provided necessary funds and where each partner had an interest in seeing it well spent. Getting money out, even to buy a house, required a partner to petition the senior management, and if Mr Weinberg granted one request he might well add that any others would be denied.

Such paternalism, impossible today, was rare even 20 years ago. Morgan Stanley had already gone public. Most of the private investment banks were smaller, with less need for capital. Two factors made this approach work at Goldman: partners saw their money in the capital account grow at an incredible rate under Mr Weinberg's leadership, and, perhaps as important, he set a selfless example.

The firm was a family concern. His father Sidney, who never made high school, had joined in 1907 to clean the spittoons. Goldman, at the time, had a franchise in what was elegantly known as “commercial paper” but in reality meant purchasing short-term receivables from cash-strapped manufacturers of clothing, cigars and the like. Through the Depression and the war Sidney rose steadily up the ranks, acquiring board seats and corporate contacts. But Goldman was still a fairly insignificant firm, in a

business then considered sleepy and disreputable, when John decided to join in 1950, straight out of Harvard Business School.

He had already seen active service with the marines and was soon recalled for the Korean war. “I felt”, he said, “like I was living on borrowed time ever since I was 19 years old.” His connection with Sidney was valuable, but his father was a tough boss, and not all Goldman's clients were willing to transfer business between generations. General Electric dropped Goldman when Sidney retired from its board and refused to have another Jewish banker. John called on the company in person every month for 12 years before Goldman's position was restored.

As well as being determined, he had a disarming style. Though educated at America's most elegant schools, he chewed gum during interviews (spitting out pieces when they lost their flavour), his shirt was often mis-buttoned, and a wide gap yawned between his socks and his trousers. The resulting rumpled mess was often underestimated. He cared about appearances that mattered. When the stockmarket crashed in 1987, Goldman had already agreed to underwrite the privatisation of British Petroleum at a set price and was in line to lose a fortune. Many in the firm wanted to slither out of the agreement, but Mr Weinberg thought that would send the worst kind of signal: that Goldman might let a client down.

Slacker ways on Wall Street

Of course, Mr Weinberg's Goldman did not always act so honourably. When a senior partner in charge of arbitrage pleaded guilty to insider trading in 1989, Goldman spent a fortune on his defence, perhaps to ensure he spilled no beans. The firm today, with three times the employees and ten times the profits of Mr Weinberg's time, still remains press-shy. It also (somewhat unsuccessfully) still discourages conspicuous consumption, and demands dedication to the point of selflessness.

Yet many of the tactics Mr Weinberg espoused, notably a refusal to do hostile deals or to work in opposition to a client, were fraying at the end of his tenure, as perceptions of permissible behaviour on Wall Street shifted. In 1999 Goldman went public, allowing employees to sell their shares for immediate gain. Mr Weinberg had deep reservations. A reason for the silence surrounding his death may be that for Goldman, at least, his legacy is at once inspiring and just a little troubling.

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Overview

Aug 17th 2006
From The Economist print edition

The **euro area** is booming. GDP in the single-currency block grew by 0.9% in the second quarter, its fastest pace since 2000. **Germany** and **Spain** grew at the same pace as the euro area as a whole; **France** was quicker, at 1.2%; **Italy** lagged behind a little, growing by 0.5%. The euro-area economy was 2.4% bigger in the second quarter than in the same quarter of 2005.

Japan's economy, by contrast, grew by only 0.2% in the second quarter, leaving it 2% higher than the year before. Companies sold goods from their stocks, rather than from fresh production. Exports also slowed, growing by just 0.9% in the quarter.

In **America** inflationary pressure eased a little. The annual rate of consumer-price inflation was 4.1% in July, compared with 4.3% in June. Core prices, which exclude those for energy and food, increased by 2.7% over the year, but the monthly gain of 0.2% was greeted with relief after four 0.3% rises in a row. The producer prices paid by companies rose by 4.2% in the year to July, but by only 0.1% compared with a month before.

The American **housing market** cooled further. Housing starts fell to an annual rate of 1.795m in July, the slowest pace for 20 months. Starts were 13.3% below their rate in the same month last year. Meanwhile, the National Association of Home Builders reported that its index of industry confidence was at its lowest since February 1991.

In America **industrial production** rose by 4.9% in the year to July. The hot weather raised the output of utilities by 2% in July alone. American industry as a whole operated at 82.4% of full capacity, 1.4 percentage points above its long-run average. The value of retail sales increased by 1.4% in July, leaving it 4.8% higher than a year before. America's trade deficit in goods and services narrowed to $64.8 billion in June, compared with $65 billion the month before. It attracted a net capital inflow of $75.1 billion in the same month. Its official creditors were net sellers of Treasury bonds and notes, but its private creditors bought $31.4 billion-worth.

In **Britain** annual consumer-price inflation was 2.4% in July, down from 2.5% in June. The unemployment rate rose to 5.5% in the second quarter, up from 5.2% in the first. Average earnings rose by 4.3% in the year to June.

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Output, demand and jobs

Aug 17th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.1	Q1	+ 3.5	+ 3.2	+ 3.3	– 1.0	Q1	+ 3.6	Q2	4.8	Jul	5.0
Austria	+ 3.0	Q2	+ 4.0	+ 2.3	+ 2.0	+ 6.2	May	+ 0.9	Jun	4.8	Jul	5.2
Belgium	+ 2.8	Q2	+ 3.2	+ 2.4	+ 2.0	+ 1.9	Jun	+ 2.6	May	12.0	Jun†	12.3
Britain	+ 2.6	Q2	+ 3.4	+ 2.4	+ 2.5	– 0.7	Jun	+ 3.6	Jun	5.5	Jun‡	4.8
Canada	+ 3.2	Q1	+ 3.8	+ 3.2	+ 2.9	– 0.4	May	+ 6.4	May	6.4	Jul	6.8
Denmark	+ 3.5	Q1	+ 0.8	+ 2.7	+ 2.3	– 1.0	Jun	+ 3.6	Jun	4.5	Jun	5.8
France	+ 1.5	Q1	+ 2.1	+ 2.0	+ 2.0	+ 2.8	Jun	+ 1.5	Jun	9.0	Jun	10.0
Germany	+ 2.4	Q2	+ 3.6	+ 1.7	+ 1.3	+ 4.5	Jun	– 0.4	Jun	10.6	Jul§	11.8
Italy	+ 1.5	Q2	+ 1.9	+ 1.3	+ 1.1	+ 3.6	Jun	– 0.4	May	7.4	Q1	7.8
Japan	+ 2.0	Q2	+ 0.8	+ 3.0	+ 2.4	+ 5.0	Jun	– 0.6	Jun	4.2	Jun	4.2
Netherlands	+ 2.4	Q2	+ 4.0	+ 2.2	+ 2.1	+ 1.9	Jun	+ 8.8	May	5.4	Jul††	6.7
Spain	+ 3.6	Q2	+ 3.6	+ 3.3	+ 2.8	+ 5.4	Jun	+ 0.7	Jun	8.3	Jun	9.3
Sweden	+ 5.5	Q2	+ 5.6	+ 3.6	+ 2.9	+ 3.1	Jun	+ 7.4	Jun	6.3	Jun†	7.1
Switzerland	+ 3.5	Q1	+ 3.8	+ 2.8	+ 2.0	+ 9.2	Q1	+ 5.9	May	3.1	Jul†	3.5
United States	+ 3.5	Q2	+ 2.5	+ 3.4	+ 2.7	+ 4.9	Jul	+ 3.4	Jun	4.8	Jul	5.0
Euro area	+ 2.4	Q2	+ 3.6	+ 2.2	+ 1.8	+ 4.9	May	+ 1.5	Jun	7.8	Jun	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q1	+ 1.6	na	na	+22.3	Jun	+ 6.5	Jun	7.7	Jun	8.2
Greece	+ 4.1	Q2	na	na	na	+ 2.6	Jun	+ 6.9	May	9.7	Q1	10.4
Iceland	+ 5.0	Q1	na	na	na	na		na		1.3	Jun†	2.1
Ireland	+ 5.8	Q1	+ 4.4	na	na	+ 3.6	Jun	+ 4.4	May	4.4	Jul	4.3
Luxembourg	+ 7.3	Q1	na	na	na	– 1.4	May	– 4.7	Jun	4.0	Jun†	3.9
New Zealand	+ 2.1	Q1	+ 2.3	na	na	– 0.7	Q1	+ 0.9	Q2	3.6	Q2	3.7
Norway	+ 5.4	Q1	+ 2.3	na	na	+ 1.7	Jun	+ 4.6	Jun	3.5	Jun††	4.7
Portugal	+ 1.0	Q1	+ 1.8	na	na	+ 1.7	Jun	– 4.9	Jun	7.7	Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Apr-Jun; claimant count rate 3.0% in Jul.
§EU harmonised rate 8.2% in Jun. ††May-Jul.

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Prices and wages

Aug 17th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 4.0	Q2	+ 2.5	+ 3.0	+ 2.8	+ 9.9	Q2	+ 6.9	+ 4.0	Q1	+ 4.5
Austria	+ 1.5	Jul	+ 2.3	+ 2.0	+ 1.8	+ 3.9	Jul	+ 1.1	+ 2.7	Jul	+ 2.3
Belgium	+ 1.6	Jul	+ 3.1	+ 2.2	+ 1.9	+ 6.1	Jun	+ 2.4	+ 2.3	Apr	+ 2.6
Britain	+ 2.4	Jul*	+ 2.3	+ 2.1	+ 1.9	+ 2.8	Jul	+ 3.1	+ 4.3	Jun†	+ 4.1
Canada	+ 2.5	Jun	+ 1.7	+ 2.3	+ 2.1	+ 2.2	Jun	+ 0.1	+ 0.3	May	+ 1.0
Denmark	+ 2.0	Jul	+ 2.0	+ 2.0	+ 2.0	+ 4.6	Jul	+ 4.7	+ 2.9	Q1	+ 3.1
France	+ 1.9	Jul	+ 1.7	+ 1.9	+ 1.6	+ 3.9	Jun	+ 2.9	+ 3.3	Q1	+ 2.9
Germany	+ 1.9	Jul	+ 2.0	+ 1.9	+ 2.3	+ 4.6	Jul	+ 2.5	+ 1.1	May	+ 0.6
Italy	+ 2.2	Jul	+ 2.1	+ 2.2	+ 2.0	+ 6.2	Jun	+ 3.7	+ 2.9	Jun	+ 3.0
Japan	+ 1.0	Jun	– 0.5	+ 0.5	+ 0.6	+ 3.4	Jul	+ 1.6	+ 1.1	Jun	+ 0.5
Netherlands	+ 1.3	Jul	+ 1.6	+ 1.5	+ 1.5	+ 5.8	Jun	+ 5.0	+ 1.9	Jul	+ 0.7
Spain	+ 4.0	Jul	+ 3.3	+ 3.7	+ 3.0	+ 6.3	Jun	+ 4.4	+ 3.0	Q1	+ 2.5
Sweden	+ 1.7	Jul	+ 0.3	+ 1.4	+ 1.8	+ 4.4	Jun	+ 3.2	+ 3.2	May	+ 1.6
Switzerland	+ 1.4	Jul	+ 1.2	+ 1.3	+ 1.3	+ 3.1	Jun	+ 0.5	+ 1.0	2005	+ 0.9
United States	+ 4.1	Jul	+ 3.2	+ 3.5	+ 2.6	+ 4.2	Jul	+ 4.7	+ 3.8	Jul	+ 2.9
Euro area	+ 2.5	Jul	+ 2.2	+ 2.2	+ 2.1	+ 5.8	Jun	+ 4.0	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Jul	+ 1.0	na	na	+ 6.0	Jul	+ 4.0	+ 3.4	Q1	+ 4.0
Greece	+ 3.8	Jul	+ 3.9	na	na	+ 7.2	Jun	+ 5.0	na		na
Iceland	+ 8.6	Aug	+ 3.7	na	na	+11.8	Jul	+ 3.7	+ 8.8	Jun	+ 6.3
Ireland	+ 4.2	Jul	+ 2.4	na	na	– 0.4	Jun	– 0.3	+ 2.2	Q1	+ 6.4
Luxembourg	+ 2.9	Jul	+ 2.6	na	na	+ 7.3	Jun	+ 6.4	+ 2.7	May	+ 2.0
New Zealand	+ 4.0	Q2	+ 2.8	na	na	+ 7.8	Q2	+ 4.7	+ 3.3	Q2	+ 2.6
Norway	+ 2.2	Jul	+ 1.4	na	na	+13.7	Jul	+19.3	+ 3.6	Q1	+ 4.2
Portugal	+ 2.3	Jul	+ 2.2	na	na	+ 6.0	Jun	+ 3.5	+ 1.0	Jun	– 0.5

*RPI inflation rate 3.3% in Jul. †Apr-Jun.

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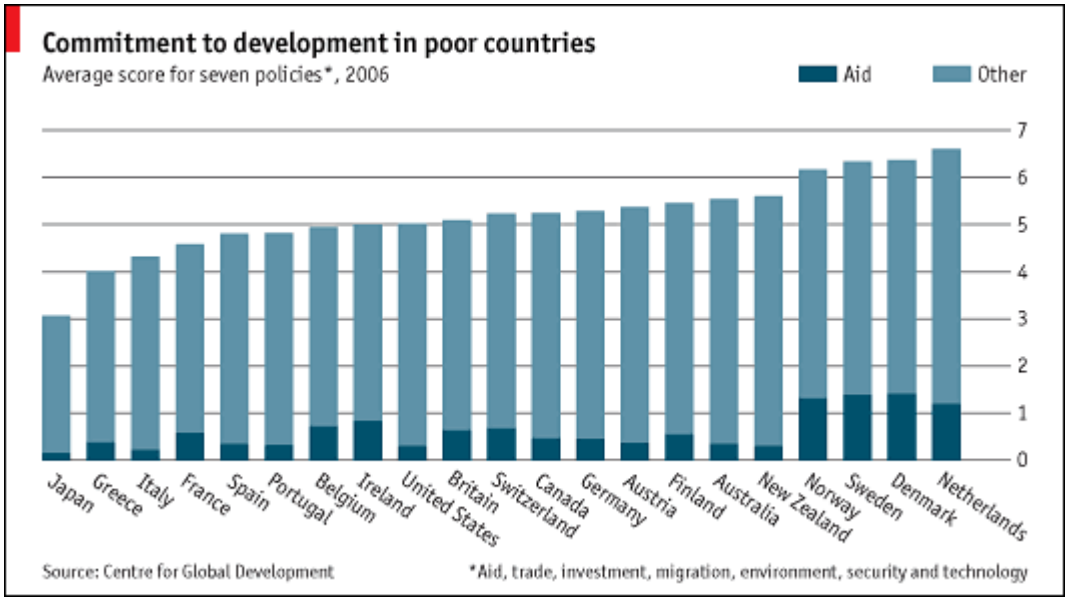
Commitment to development in poor countries

Aug 17th 2006
From The Economist print edition



The Netherlands is the rich country most committed to fighting poverty in the developing world, according to an annual index created by the Centre for Global Development. The Dutch are generous donors, but aid is only one of seven policies it considers. Countries gain points for admitting migrants, for example, and for policing sea-lanes, but lose them for selling arms to undemocratic regimes—one reason Britain is ranked 12th.

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Money and interest rates

Aug 17th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 16th 2006)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+10.2	+ 9.6	Jun	6.21	5.62	5.98	5.88	5.17	6.98
Britain	+ 5.7‡	+13.5	Jun	4.92	4.53	4.92	4.68	4.28	5.74‡
Canada	+12.3	+ 6.4	Jun	4.11	2.66	4.12	4.27	3.96	5.51
Denmark	+13.2	+10.0	Jun	3.30	2.20	3.70	3.92	3.20	5.34
Japan	+ 3.2	+ 0.5	Jul	0.34	0.02	0.79	1.85	1.43	2.04
Sweden	+ 0.2	+10.5	Jun	2.38	1.47	3.31	3.83	3.12	3.95
Switzerland	- 1.3	+ 0.8	Jul	1.61	0.76	1.97	2.64	1.94	2.73
United States	+ 0.2	+ 4.9	Jul§	5.28	3.65	4.87	4.88	4.30	5.89
Euro area†	+ 9.3	+ 8.5	Jun	3.23	2.13	3.62	3.89	3.21	4.51

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. §New series for broad money supply. Benchmarks: US 30-year 4.99%, Japan No. 280 1.83%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.00%, BOJ overnight call 0.25%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 17th 2006
From The Economist print edition

2000=100

	Aug 8th	Aug 15th*	% change on one month	% change on one year
Dollar index				
All items	175.8	172.9	– 2.5	+ 30.4
Food	136.8	134.5	– 2.7	+ 9.2
Industrials				
All	226.2	222.6	– 2.4	+ 53.9
Nfa†	153.4	150.9	– 3.3	+ 18.7
Metals	265.9	261.7	– 2.1	+ 69.7
Sterling index				
All items	139.8	138.3	– 6.1	+ 24.5
Euro index				
All items	126.6	125.0	– 4.8	+ 25.7
Yen index				
All items	187.7	186.1	– 3.6	+ 38.5
Gold				
$ per oz	644.57	621.80	– 3.8	+ 40.0
West Texas Intermediate				
$ per barrel	76.42	73.02	– 1.1	+ 10.4

*Provisional. †Non-food agriculturals.

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Stockmarkets

Aug 17th 2006
From The Economist print edition

Market indices

	Aug 16th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	4,928.9	5,318.2	4,708.8	nil	– 7.3	+ 4.7	+ 9.7
Austria (ATX)	3,778.3	4,344.4	3,324.1	+ 2.0	–14.7	+ 1.0	+10.1
Belgium (Bel 20)	3,907.8	3,987.3	3,445.1	+ 2.5	– 4.4	+ 7.4	+17.0
Britain (FTSE 100)	5,896.6	6,132.7	5,506.8	+ 0.6	–15.4	+ 4.3	+15.4
Canada (Toronto Composite)	12,030.3	12,487.3	10,904.3	+ 0.2	– 3.8	+ 6.5	+11.4
Denmark (OMXCB)	362.2	395.5	325.0	+ 1.8	–10.1	– 3.3	+ 5.3
France (SBF 250)	3,599.7	3,755.6	3,244.2	+ 2.1	–19.7	+ 6.8	+16.3
France (CAC 40)	5,137.3	5,312.2	4,615.4	+ 2.2	–27.4	+ 6.6	+16.1
Germany (DAX)*	5,812.9	6,140.7	5,292.1	+ 1.9	–29.3	+ 5.4	+14.9
Italy (S&P/MIB)	37,335.0	38,765.0	34,850.0	+ 1.3	–26.5	+ 3.2	+12.5
Japan (Nikkei 225)	16,071.4	17,563.4	14,218.6	+ 2.6	–59.8	– 2.8	– 0.9
Japan (Topix)	1,629.7	1,783.7	1,458.3	+ 3.3	–45.3	– 4.3	– 2.5
Netherlands (AEX)	462.9	478.0	412.9	+ 2.1	–35.4	+ 3.8	+13.1
Spain (Madrid SE)	1,307.5	1,318.5	1,156.8	+ 1.1	– 1.9	+11.9	+21.9
Sweden (Affarsvarlden Gen)	302.1	333.7	275.2	+ 2.5	–26.3	+ 0.5	+11.7
Switzerland (Swiss Market)	8,089.7	8,122.1	7,154.9	+ 2.6	– 6.3	+ 3.9	+11.6
United States (DJIA)	11,327.1	11,642.7	10,667.4	+ 2.3	– 5.5	+ 3.3	+ 3.3
United States (S&P 500)	1,295.4	1,325.8	1,223.7	+ 2.3	–17.1	+ 1.4	+ 1.4
United States (NASDAQ Comp)	2,149.5	2,370.9	2,020.4	+ 4.3	–59.2	– 6.6	– 6.6
Europe (FTSEurofirst 300)†	1,359.6	1,405.6	1,238.7	+ 1.4	–21.4	+ 5.1	+14.5
Euro area (FTSE Euro 100)†	1,162.3	1,198.7	1,050.0	+ 1.9	–26.5	+ 4.7	+14.1
World (MSCI)‡	1,351.8	1,406.3	1,243.9	+ 1.9	– 8.4	+ 5.5	+ 5.5
World bond market (Citigroup)††	645.1	648.4	612.1	– 0.2	– 3.1	+ 4.2	+ 4.2

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 17th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 Aug 16th	year ago	Currency units per $ Aug 16th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2006†
Australia	− 11.9 Jun	− 40.6	Q1	− 5.7	− 5.4	118.9	117.0	1.30	1.31	2.47	1.67	1.12	+ 0.9
Austria	− 1.3 May	+ 6.4	Q1	+ 0.4	+ 0.5	105.6§	104.6	0.78	0.81	1.48	–	0.67	− 1.9
Belgium	+ 14.9 Jun	+ 7.3	Mar	+ 1.5	+ 1.6	107.4§	106.1	0.78	0.81	1.48	–	0.67	− 0.4
Britain	−132.1 Jun	− 52.3	Q1	− 2.8	− 2.9	101.9	99.7	0.53	0.55	–	0.68	0.45	− 3.4
Canada	+ 60.2 Jun	+ 31.8	Q1	+ 2.3	+ 1.6	128.9	119.4	1.12	1.21	2.12	1.44	0.96	+ 2.2
Denmark	+ 8.4 Jun	+ 5.5	Jun	+ 2.2	+ 1.9	106.4	105.8	5.81	6.06	11.0	7.46	5.01	+ 3.3
France	− 32.3 Jun	− 33.4	May	− 1.8	− 1.5	108.3§	106.8	0.78	0.81	1.48	–	0.67	− 2.9
Germany	+186.4 Jun	+106.2	Jun	+ 3.5	+ 3.5	109.9§	108.1	0.78	0.81	1.48	–	0.67	− 3.1
Italy	− 19.9 May	− 30.3	May	− 1.7	− 1.5	107.9§	106.5	0.78	0.81	1.48	–	0.67	− 4.2
Japan	+ 79.0 Jun	+164.6	Jun	+ 3.7	+ 3.6	80.6	86.8	116	110	220	149	–	− 5.2
Netherlands	+ 39.5 Jun	+ 46.2	Q2	+ 5.9	+ 5.8	108.3§	106.8	0.78	0.81	1.48	–	0.67	− 0.5
Spain	−101.4 May	− 91.6	May	− 7.9	− 7.8	105.8§	104.8	0.78	0.81	1.48	–	0.67	+ 1.1
Sweden	+ 19.6 Jun	+ 23.2	Q1	+ 6.7	+ 6.0	98.6	96.2	7.16	7.58	13.6	9.20	6.18	+ 1.7
Switzerland	+ 7.1 Jun	+ 51.7	Q1	+12.7	+11.9	105.7	106.7	1.23	1.26	2.33	1.58	1.06	− 0.2
United States	−830.2 Jun	−808.5	Q1	− 6.7	− 6.8	83.0	84.8	–	–	1.90	1.29	0.86	− 3.6
Euro area	− 5.1 May	− 56.9	May	− 0.4	− 0.3	118.9	115.9	0.78	0.81	1.48	–	0.67	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 11.0 Jun	+ 11.0	Jun	na	na	109.0§	107.5	0.78	0.81	1.48	–	0.67	+ 2.2
Greece	− 37.7 May	− 23.3	May	na	na	104.8§	103.7	0.78	0.81	1.48	–	0.67	− 3.0
Iceland	− 1.9 Jun	− 3.1	Q1	na	na	87.4**	101.4	69.1	63.8	131	88.8	59.7	+ 2.0
Ireland	+ 38.0 May	− 5.6	Q1	na	na	113.7§	111.3	0.78	0.81	1.48	–	0.67	− 0.3
Luxembourg	− 5.0 May	+ 3.9	Q1	na	na	107.4§	106.1	0.78	0.81	1.48	–	0.67	− 1.7
New Zealand	− 4.6 Jun	− 10.1	Q1	na	na	124.7	136.7	1.56	1.42	2.96	2.00	1.35	+ 4.6
Norway	+ 59.0 Jul	+ 50.2	Q1	na	na	109.1	110.2	6.27	6.44	11.9	8.06	5.42	+ 18.5
Portugal	− 22.7 May	− 16.8	May	na	na	105.7**	106.0	0.78	0.81	1.48	–	0.67	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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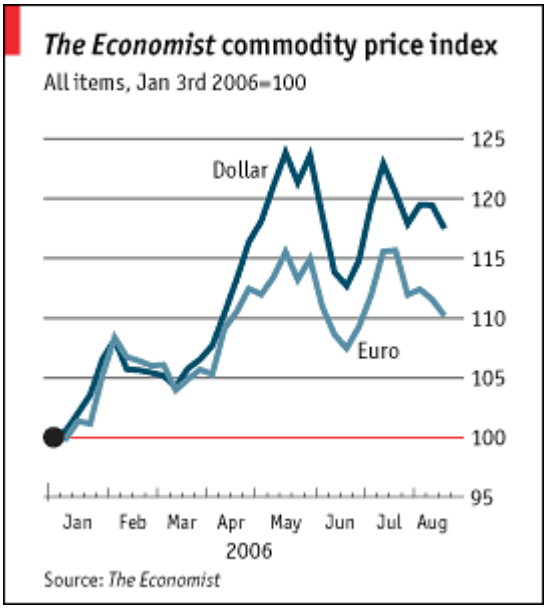
The Economist commodity price index

Aug 17th 2006
From The Economist print edition

Our dollar-based commodity index is now 5% below its peak in May, but has risen by 17% since the start of the year. Measured in euros, however, the index has gained only 10% in that time.



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Overview

Aug 17th 2006
From The Economist print edition

Mexico's GDP grew by 4.7% in the year to the second quarter. Its industrial production expanded by 6.9% in the year to June, thanks to car exports and construction.

Hungary's GDP grew by 3.6% in the year to the second quarter, a disappointment after growth of 4.6% in the year to the first.

China's industrial production grew by 16.7% in the year to July, after expanding by 19.5% in the year to June. Its investment in fixed assets, such as factories and real estate, in urban areas was 30.5% greater in the first seven months of this year than in the same period of 2005. Meanwhile, consumer prices increased by just 1% in the year to July.

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The Economist poll of forecasters

Aug 17th 2006
From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 countries. Since May the panel has become more optimistic about growth this year, raising forecasts for 17 countries and cutting them for seven. The biggest mark-ups are for the Czech Republic, Argentina, China and Egypt and the biggest mark-down for Turkey.

August

	Real GDP % change		Current account % of GDP	
	2006	2007	2006	2007
China	10.1	9.0	6.5	5.8
Hong Kong	6.2	5.0	8.5	8.4
India	7.7	7.2	-2.5	-2.5
Indonesia	4.9	5.5	1.9	1.4
Malaysia	5.4	5.3	12.4	11.0
Philippines	5.2	5.0	2.6	2.1
Singapore	6.6	5.0	25.7	22.4
South Korea	5.5	4.4	0.7	0.3
Taiwan	4.1	4.1	4.9	4.4
Thailand	4.4	4.5	6.3	7.1
Argentina	7.2	4.6	1.9	1.1
Brazil	3.5	3.5	0.9	0.2
Chile	5.4	5.4	1.8	0.8
Colombia	4.5	4.1	-1.5	-1.7
Mexico	4.1	3.2	-0.4	-1.1
Peru	5.3	4.6	1.5	1.1
Venezuela	6.7	4.3	13.5	9.0
Egypt	5.6	5.5	1.6	0.5
Israel	4.5	3.6	1.6	0.8
South Africa	4.5	4.4	-5.3	-4.7
Czech Republic	6.1	4.9	-2.0	-1.7
Hungary	3.9	2.7	-7.6	-6.3
Poland	5.0	4.6	-1.6	-2.0
Russia	6.6	6.4	10.1	6.7
Turkey	4.5	4.0	-5.0	-5.2

Sources: ABN AMRO; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; JPMorgan Chase; Merrill Lynch; UBS.

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Economy

Aug 17th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.3	Q2	+16.7	Jul	+ 1.0	Jul	+127.0	Jul	+160.8	2005	941.1	Jun
Hong Kong	+ 8.2	Q1	+ 7.0	Q1	+ 2.2	Jun	−14.0	Jun	+20.7	Q1	127.4	Jul
India	+ 9.3	Q1	+ 9.6	Jun	+ 7.7	Jun	−41.2	Jun	−10.6	Q1	157.1	Jul
Indonesia	+ 5.2	Q2	− 1.6	May	+15.2	Jul	+33.5	Jun	+ 3.8	Q1	38.5	Jun
Malaysia	+ 5.3	Q1	+ 7.0	Jun	+ 4.1	Jul	+27.1	Jun	+19.5	Q1	78.5	Jun
Pakistan	+ 6.6	2006†	+11.6	Mar§	+ 7.6	Jul	−12.0	Jun	− 4.8	Q1	11.6	Jun
Philippines	+ 5.5	Q1	− 5.4	May	+ 6.4	Jul	− 3.9	May	+ 2.9	Mar	18.2	Jul
Singapore	+ 8.1	Q2	+22.5	Jun	+ 1.4	Jun	+33.4	Jun	+36.1	Q1	129.9	Jul
South Korea	+ 5.3	Q2	+10.9	Jun	+ 2.3	Jul	+17.0	Jul	+ 7.8	Jun	225.7	Jul
Taiwan	+ 4.9	Q1	+ 5.5	Jun	+ 0.8	Jul	+11.3	Jul	+18.1	Q1	260.4	Jul
Thailand	+ 6.0	Q1	+ 6.1	Jun	+ 4.4	Jul	− 2.4	Jun	+ 2.7	Jun	56.4	Jun
Argentina	+ 8.6	Q1	+ 8.9	Jun	+10.6	Jul	+11.8	Jun	+ 6.7	Q1	24.4	Jun
Brazil	+ 3.4	Q1	− 0.6	Jun	+ 4.0	Jul	+45.3	Jul	+12.1	Jun	62.7	Jun
Chile	+ 5.1	Q1	+ 2.3	Jun	+ 3.8	Jul	+17.0	Jul	+ 0.8	Q1	17.0	Jul
Colombia	+ 3.7	Q2	+12.0	May	+ 4.3	Jul	+ 1.1	May	− 2.0	Q1	14.6	Jul
Mexico	+ 4.7	Q2	+ 6.9	Jun	+ 3.1	Jul	− 4.2	Jun	− 1.2	Q1	84.9	Jun
Peru	+ 6.9	Jun	+11.7	Jun	+ 1.5	Jul	+ 6.3	Jun	+ 0.7	Q1	13.5	Jul
Venezuela	+ 9.2	Q2	− 8.0	Apr	+13.5	Jul	+34.8	Q1	+29.5	Q2	23.8	Jun
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 8.4	Jul	−11.2	Q1	+ 2.1	Q1	21.1	Jul
Israel	+ 6.2	Q2	+10.4	May	+ 2.4	Jul	− 7.9	Jul	+ 4.4	Q1	27.9	Jul
Saudi Arabia	+ 6.6	2005‡	na		+ 2.2	May	+126.5	2005	+90.7	2005	24.0	Jun
South Africa	+ 4.0	Q1	+ 6.1	Jun	+ 4.9	Jun	− 6.9	Jun	−11.7	Q1	21.6	Jul
Czech Republic	+ 7.4	Q1	+10.5	Jun	+ 2.9	Jul	+ 1.6	Jun	− 3.4	Q1	30.4	Jul
Hungary	+ 3.6	Q2	+11.5	Jun	+ 3.0	Jul	− 3.3	Jun	− 7.9	Q1	20.7	Jul
Poland	+ 5.2	Q1	+12.4	Jun	+ 1.1	Jul	− 2.6	May	− 4.2	Jun	44.9	Jun
Russia	+ 5.5	Q1	+ 2.9	Jul	+ 9.6	Jul	+138.6	Jun	+91.4	Q2	257.9	Jul
Turkey	+ 6.4	Q1	+11.4	Jun	+11.7	Jul	−49.4	Jun	−28.7	Jun	56.8	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.7	Q1	+ 6.3	Jun	+ 4.5	Jul	− 2.7	May	− 1.8	May	2.1	May
Latvia	+13.5	Q1	+ 5.7	Jun	+ 7.0	Jul	− 3.6	Jun	− 2.3	May	3.1	May
Lithuania	+ 7.7	Q2	na		+ 4.4	Jul	− 4.1	Jun	− 2.1	May	4.2	May
Slovakia	+ 6.2	Q2	+12.1	Jun	+ 5.0	Jul	− 2.9	May	− 4.7	Apr	16.6	May
Slovenia	+ 5.1	Q1	+ 4.3	Jun	+ 2.0	Jul	− 1.8	Jun	− 0.3	May	8.4	Apr

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Aug 17th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 16th		Dec 30th 2005	
	Aug 16th	year ago	Aug 16th	% a year		one week	in local currency	in $ terms
China	7.99	8.10	15.2	3.00	1,699.3	+2.4	+ 39.2	+ 40.6
Hong Kong	7.78	7.77	14.8	4.27	17,451.0	+0.6	+ 17.3	+ 17.0
India	46.6	43.5	88.5	6.34	11,448.3	+2.7	+ 21.8	+ 17.7
Indonesia	9,093	9,900	17,277	12.32	1,437.8	+1.7	+ 23.7	+ 33.8
Malaysia	3.68	3.77	7.00	3.88	938.0	– 0.3	+ 4.2	+ 7.0
Pakistan	60.3	59.7	115	10.11	10,576.8	– 0.7	+ 10.7	+ 9.7
Philippines	51.3	55.9	97.4	7.25	2,343.5	– 0.2	+ 11.8	+ 15.7
Singapore	1.57	1.66	2.99	3.50	2,453.4	– 0.5	+ 4.5	+ 10.5
South Korea	965	1,018	1,834	4.70	1,315.6	+0.1	– 4.6	– 0.1
Taiwan	32.7	32.1	62.2	1.79	6,696.6	+1.9	+ 2.3	+ 2.7
Thailand	37.4	41.3	71.0	5.40	712.1	+0.4	– 0.2	+ 9.5
Argentina	3.08	2.89	5.85	10.13	1,634.1	+0.1	+ 5.9	+ 4.2
Brazil	2.13	2.35	4.05	14.70	37,677.0	+1.1	+ 12.6	+ 23.4
Chile	536	532	1,019	5.16	10,073.7	+0.7	+ 9.4	+ 4.5
Colombia	2,356	2,306	4,477	6.45	9,597.2	+0.1	+ 0.9	– 2.1
Mexico	10.8	10.6	20.4	7.03	20,900.0	+4.2	+ 17.4	+ 16.1
Peru	3.22	3.25	6.13	4.32	9,553.3	+1.8	+ 98.9	+111.6
Venezuela	2,650§	2,610§	5,035	10.19	35,386.6	+1.7	+ 73.5	+ 69.3
Egypt	5.74	5.77	10.91	8.82	50,222.1	– 0.5	– 9.3	– 9.4
Israel	4.36	4.49	8.28	5.64	823.3	+1.8	– 0.6	+ 5.0
Saudi Arabia	3.75	3.75	7.13	5.14	11,573.2	+2.3	– 30.8	– 30.8
South Africa	6.78	6.47	12.9	8.10	21,080.5	+1.4	+ 16.5	+ 9.0
Czech Republic	21.9	23.9	41.5	2.36	1,426.6	– 0.3	– 3.2	+ 9.1
Hungary	214	198	406	7.27	21,791.4	– 0.7	+ 4.8	+ 5.1
Poland	3.01	3.26	5.73	4.18	43,402.6	– 2.5	+ 21.9	+ 31.8
Russia	26.7	28.5	50.8	11.50	1,654.9‡	+0.7	+ 36.7	+ 47.0
Turkey	1.44	1.37	2.74	19.93	38,433.4	+2.3	– 3.4	– 9.5
EM (MSCI)*	1.00	1.00	1.90	na	780.4	+1.1	+ 10.5	+ 10.5
EMBI+†	1.00	1.00	1.90	na	387.5	+0.8	+ 5.1	+ 5.1

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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